

INTERNATIONAL ECONOMIC RELATIONS

*A Treatise on
World Economy and World Politics*

BY

JOHN DONALDSON, PH.D (Johns Hopkins)

*Professor of Commerce, George Washington University Formerly
Economist, U. S. War Trade Board, U. S. Shipping Board, U. S.
Department of State, respectively, Secretary, U. S. Inter-
Departmental Economic Liaison Committee, Technical Ad-
viser, American Delegation, Washington Conference on the
Limitation of Armament, Editor for Foreign Countries,
Commerce Yearbook, U. S. Department of Commerce*

LONGMANS, GREEN AND CO
NEW YORK LONDON · TORONTO

1928

DONALDSON
INTERNATIONAL ECONOMIC RELATIONS

COPYRIGHT 1928
BY LONGMANS, GREEN AND CO.

FIRST EDITION

MADE IN THE UNITED STATES OF AMERICA

This book is dedicated to my family to my father, Charles S Donaldson, in recognition of his distinguished public service and pioneer studies of modern world commerce; to my mother, Mary Bygate Donaldson, with gratefulness for her wise and gentle guidance and her companionship in the realm of philosophy and the liberal arts, to my wife, Frances Flaacke Donaldson, in tribute to her untiring co-operation in this and other tasks and her intellectual and moral comradeship; to all three in appreciation of their unfailing devotion and inspiration throughout the years

•PREFACE

AT A TIME when international relations in general, and their economic aspects in particular, are increasingly recognized as of growing complexity and significance, it is important to undertake their study, not simply on the one hand as a series of isolated political, diplomatic, and historical incidents nor on the other hand solely as matters of international trade, shipping, and finance, but rather by analysis of the fundamental politico-economic structure which so largely creates their commercial processes and so frequently determines, directly or indirectly, their public policies

This general object of the present volume, together with its particular purposes, viewpoint, scope, and methods, may be more fully explained in the following paragraphs.

THE PLAN

The work deals with basic factors and with a primary national and international order, together with the principles, processes, problems, and policies of that order. It was originally undertaken as a treatment of the entire field of international economic relations, especially because, in spite of many works on certain aspects of those relations and some fragmentary literature on other phases, there appears to exist no such complete treatment coordinating the field. As the plan developed it became apparent, not only that this would require more than one volume, but that there would be defi-

nite advantages in presenting a study of the more basic phases of the field as a distinct work. That is, although there are various volumes on the theory of international trade (in addition, of course, to manuals of export and import procedure), and some dealing with international shipping and finance, there seems to be no present, systematic treatment of the general, and particularly the industrial, structure underlying such processes

The plan of this study, therefore, is one of first dealing somewhat briefly with what are here classified as the "basic and related factors in international economic relations," namely the basic geographic and social, and the related political, legal, and territorial factors as they bear on the economic situation in world affairs. This makes up the background or "setting of world economy." Part II then deals with the structural and industrial basis of international relations, touching upon a number of special problems which are involved and many of which are of current, outstanding importance, but, of even more significance, attempting to view this structure from a perspective and thus to arrive at a systematic view of the whole order. Consequently, consideration is given in some detail and with considerable comprehensiveness to such topics as "domestic enterprise and foreign activity," "foreign and international enterprise—international industrial control," "foreign enterprise in special areas—systems of economic penetration," "resources and national position—the interdependence of nations for essential materials," "public foreign and international control of raw materials—the question of world monopoly of essential supplies," "special resource problems" (as illustrated in the case of "petroleum and diplomacy"), and "private foreign and international exploitation of raw materials—the international character of the bases of indus-

try.” But in addition such considerations are posited upon certain systematic concepts of “national economies,” *i.e.*, of the total economic structure of nations, and of the “world economy” or world structure of an organic nature which results from the definite relationship of the national economies as parts of a whole. It is hoped that the gathering together of current problems may prove useful and fill a need, but it is in this coordination, in this delineation of structure of national and world economy (upon the basis of analysis of existing conditions rather than by means of some purely deductive process), that it is hoped there may be some contributory element of distinct and permanent value.

In addition to the Outline and Table of Contents of this book, a continuation of the outline, covering the other departments of international economic relations, is given in the Appendix. Together these will afford a comprehensive and organized view, not only of the plan of this volume, but also of the other phases of the entire field. The latter, that is, international trade, shipping, and finance, or what may be broadly classified as the international exchange processes, will be covered in a succeeding volume, which the author is now writing and which will round out the total plan. Meanwhile the complete outline may prove useful, for example, to those undertaking to develop an advanced university course on the whole subject. These latter processes, though more familiar and more accessible to study in existing works, can be fully understood only in the light of the fundamental structure from which they currently flow. In short, such things as international trade and shipping, and the policies relating to them, are highly important, but industry is basic, and the whole system is properly explained only in terms of the constitution of the economic and politico-economic order.

SCOPE AND VIEWPOINT

The Economic and the Political As indicated in the title this study is one primarily of the economic aspects, or rather of the economic basis, of international relations. A great many if not most of the phenomena and problems of those relations involve this element. However, government policies are considered, and the political aspect is almost constantly taken into account. One or the other of the two elements may be stressed, but attempts at isolation of either is largely futile. Such attempts, like endeavors to separate any two branches of knowledge or of human activity into water-tight compartments, or to subordinate one to another, involve unprofitable controversies in terminology. From a narrow viewpoint, at times unfortunately adopted both in the conduct of foreign affairs and in local public policy, political becomes synonymous with legalistic and a political problem becomes a matter of interpretation of phrases in laws and treaties without regard for the real questions concerned. If "political" be given a connotation of "governmental," it might be said that international relations are frequently political in form but economic in content. Indeed, international relations are often thought of as relations between governments, whereas there is also the large and steadily flowing volume of intercourse which proceeds with little or no reference to governments, and which involves not only tangible economic, but also cultural, religious, and other less tangible elements. That is, there is really some distinction between public international relations, as expressed in such things as diplomacy and legislation, and private international relations in the form, notably, of economic intercourse. The present study is one of both private (economic) and public relations, but it takes the former as a starting point and

utilizes it as a basis for considering related phases of the latter. The primary and extensive importance of the former is worthy of emphasis. But the two can seldom be dissociated, and if the term political is used in its broadest sense, it may doubtless be taken to include all the elements in national affairs, whether psychological, cultural, racial, legal, or economic. Specifically, the present study of international relations is economic and is political, it may be termed politico-economic. The study also involves some treatment of certain phases of several different, but related, fields. It touches upon geography, sociology, and law, as well as upon economics and general politics. Such an extension, at points, is necessitated by the complexity of the factors and problems involved in international relations, and affords the advantage of single treatment from a central viewpoint, and of a resulting coordination of thought.

The National and the International. Just as the study embraces both the economic and the political, similarly it involves both the national and the international. Although nominally falling in the latter field, it takes the former into account. Too often foreign affairs are viewed as isolated phenomena, whereas they are the product of the interplay of domestic affairs, and the world order is logically comprehended as a composition of interacting national orders.

If considerable emphasis is given to a certain underlying international economic unity, this does not necessarily constitute "internationalism" in the extreme sense of that term. The economic interdependence of nations does not necessarily suggest a world economy so complete as to be translated through world polity into a world state or a condition of world peace. Commercial competition, struggles for resources, and other forms of economic rivalry at times produce conflict, abroad as at home. But the contention some-

times heard, that such rivalry is the cause of all war and the creator of all international difficulty, is clearly unfounded, and the occasional charge that there is a kind of world conspiracy on the part of capitalism to thrust nations into debt and wars in order to perpetrate international usury or to reap profits on such things as the manufacture of munitions scarcely warrants consideration. It is impossible to calculate quantitatively the extent to which economic activities either stir strife or conduce to concord. One principle, however, should be borne in mind. Throughout all the international economic processes there appear (1) a mutuality of interests analogous to that which leads to much cooperative economic endeavor within a nation, and (2) a compensatory character of unlike interests which, though often obscured by surface friction, is so fundamental as to be in a sense the very *raison d'être* of those processes, as illustrated in the fact that international trade results primarily from regional specialization in production, or territorial division of labor. Indeed one might paraphrase Adam Smith's basic concept that in the natural interaction of private self-interest lies the best adjustment of the economic relations of individuals, and apply it to nations. On the larger scale it is primarily the diversity of national economies which creates a world economy. Consequently, to use the latter term does not imply an argument for any particular scheme for world government. Cooperation there must be, but it is equally important at the same time to preserve the benefits of the natural development of national genius and self-interest and of distinctive national destiny, as the true basis of the world order.

It may be observed in this connection that although the scope and viewpoint of this study are world-wide, somewhat fuller attention and even emphasis is occasionally given to

America's part in the whole scheme. This involves no attempt to magnify America's rôle in world affairs, but is justified by its important and in some senses pivotal place among the leading powers in the world's business of the present day, by the peculiar interest in this country and elsewhere in the American position, as well as by the convenience of such treatment in illustrating the points developed. It is, however, a world study rather than a primarily national study, as will be seen in the chapters themselves.

The Natural and Practical Character of the Existing Order and Ways of Viewing It Scientifically. Again, the study is an attempt at analysis of things as they are, as it is believed any scientific treatment should be. To the extent that solutions of problems are considered no radical proposals are made. This is not the result of any preconceived conservatism, but rather of a conclusion that the economic order of things is largely a product of an evolution along lines of inherent forces. This order is in a sense as natural as others, such as the biological one, and though problems and difficulties arise they are to be solved by conformity to and utilization of natural forces and motives and not by futile attempts at revolutionary destruction of the order itself.

Such a view results especially from an objective observation of the phenomena of the field. Thus this study, while not intended as a manual of routine, is of a practical nature, in that it deals with actually existing conditions and problems. Its principal method is not a line of abstract reasoning involving purely theoretical suppositions concerning imaginary situations. Such an approach, considerably employed in earlier economic thought, as in writings of the mercantilists as well as of the classical school and of certain still later writers, although of much interest in the whole attempt

to arrive at ultimate doctrines, finds limited usefulness in the light of later methods and sources of information. True, it would be a mistake to suppose that the inductive method could or should ever completely supersede the deductive method in all the branches of knowledge, these are, in fact, not necessarily mutually exclusive in all cases, and each has its value. Furthermore, it must be recognized that the "social sciences" do not lend themselves so well as do the "natural sciences," such as physics and chemistry (if these are really any more "natural" than the social ones), to the inductive method. Certainly there are great, and in some cases nearly insuperable, obstacles to the adoption of the quantitative method, as distinguished from the qualitative method, in the social sciences. Where reagents cannot be isolated, where the "laboratory" is often as large as a nation or the world and accordingly as difficult to reduce to beaker or scales, and above all, where the so-called "human element" constantly enters in, as illustrated in whims of consumption and market "higgling" and scores of other influences of intangibles, there exact measurement is often extremely difficult. Even with the advent of the newer ways of "commerce analysis" it is open to question whether things economic, like also things political, may ever be reduced to a purely quantitative manipulation. However, the constant growth, not only of devices of measurement and analysis, but also of machinery for recording and compiling the data of business processes, makes for progress in that direction. In any event, there is much to be gained in this field from careful attempts to draw together facts regarding actual conditions, even though they are not always quantitative, and as far as possible to use these in an inductive way in conceiving principles.

Moreover, while many current problems of outstanding

interest, some of them of rather acute character, are here dealt with, the primary purpose is not to stress these problems as such, with the possible international conflicts involved, but rather to emphasize the normal processes which occur in large but quiet and generally unobserved volume. It is ordinarily much less the spectacular incidents and much more the unheralded normal transactions which mold the existing world order

It is to be observed, further, that this flow of transactions obviously is not static. Despite the prevalence of so-called institutions, which are of much stability and unquestionable value, things economic, like things political, are essentially dynamic, and in such matters fundamental systems are to be discovered largely in an examination of their current phenomena. Nevertheless, systems do exist, even though they be of an organic, metabolic nature, and ascertainment of them is highly important.

Such a consideration raises the illustrative question of the permanent or temporary character of the international events of the present period. The World War and its aftermath affected economic conditions practically everywhere and disorganized and possibly to some extent reorganized economic structures. This lends a new interest to the present subject at this time. But it also makes it somewhat more difficult, even yet, to distinguish temporary changes and conditions from permanent trends and principles. Whether the War and its results marked the beginning of a new era in economic history, as many supposed during the war and immediate post-war period, is still the subject of some differences of opinion. Such a view may be seriously questioned, for as time has elapsed there have been many indications, not of the final elimination of difficulties due to those disturbances, but of a settling back, as far as fundamentals

are concerned, to the old economic order which after all was a natural product of economic evolution and therefore was not likely to be remade even by a world war. Many recent changes must necessarily be noted in a study of this sort, and this has been done, but always with the basic conditions in mind. Furthermore, it will be seen that many economic effects of the struggle of 1914-18 represent mainly a precipitation of events already in the making, a hastening of the process of a given evolution, for example an explanation of America's change from debtor to creditor position as simply a war result would be superficial and fail to take into account the trend in its national economy which had been leading in that direction or at least preparing the basis without which the change could not have occurred. Still other present-day problems which seem both acute and novel, when analyzed appear to be fundamentally due only to a lack of readjustment to the pre-war system, this is probably true of the major current difficulty of American agriculture, which was artificially stimulated by the war and has not even yet become readjusted to the pre-war trend. It would more and more appear that the basic economic and politico-economic structure, though not a static one, and though shaken by the World War, has not been recast.

Past and Present Approaches and Concepts The foregoing comments on the nature of the present analysis suggest the matter of the past and present approaches to this field. These have been various, but doubtless the most familiar idea of international economic relations is one couched largely if not exclusively in terms of international trade (and related shipping and finance) and of its values. This has been, perhaps, particularly true of the literature on the subject in the English language. From the very beginning English economic thought naturally placed much emphasis upon

PREFACE

international commerce, if indeed it did not find birth, in considerable measure, in such considerations of external affairs. Apparently it has continued to stress trade (and shipping), and to concern itself a good deal, internationally as nationally, with value and price and related matters, and consequently, in the international field, with such things as trade balances. American discussion in this international field (though not so greatly in the domestic realm), where it has gone beyond mere description has shown somewhat similar tendencies.

As for discussions of international trade as such, their importance is not to be minimized. That process is the most obvious one in international economic relations. Indeed, it is the process which largely gives expression to the conditions which create it, and which therefore is, in a sense, the automatic gauge of such conditions, as well as an index, to some extent, of other exchange processes. Consequently a method in the study of international economic affairs which stresses industry and other background factors, and which arrives at concepts of national and international economy, does not necessarily conflict with a given theory of international trade. It is a matter, not of opposite conclusion, but of different approach and different emphasis, of different choice of that which is to be first considered.

However, whatever approaches may have prevailed, the underlying purpose of the present work is to develop, as far as possible by means of inductive analysis, not only a fundamental industrial but also a total structural, *organic* concept of the national and international economic and politico-economic order, and to do this along distinctive lines. The constitution of this order primarily determines the processes, problems, and policies of international economic relations.

SOURCES AND REFERENCES

Effort has been made to "document" the present study carefully

The wide scope and the current nature of many of the problems dealt with involve certain difficulties of treatment. As for the scope, in some segments of so wide a field the sources of information are either very inaccessible or are almost non-existent. This is particularly true of industrial relations. For example, while imports and exports of the leading nations are largely recorded in reasonably accurate and detailed statistics, such things as the granting of foreign concessions and the formation of international affiliations of industrial enterprise are not only not always matters of public record but not infrequently are kept secret by the business interests involved. Such data, if obtainable at all, unlike statistics of foreign trade, can seldom be drawn simply from one or two official government compilations, scattered, and in a few instances unofficial, sources must be utilized. There are also a few places, chiefly in the introductory chapters, where secondary sources are necessarily given considerable weight, for example this is true of works on international law cited in Chapter Four. However, throughout the study in general, and particularly in the main body of the work, the attempt has been made constantly to turn to official documents and other primary and original sources, wherever such are available, for the materials upon which the analysis is based and with which its principles are illustrated. This will be seen from the full citation of such sources throughout the chapters. At the same time extensive lists of the chief secondary works have also been added at the appropriate points in the footnotes of each chapter, even though materials are not drawn from them so that these

may comprise a select bibliography for purposes of comparative reference and collateral reading. These lists of references are not segregated at the ends of the chapters; such a plan might be slightly more convenient for superficial use, but for thorough treatment there is a distinct advantage, if not necessity, in placing them at exactly those points where they are pertinent.

The time element naturally presents some further difficulties. Where so many current events enter into the subject it is not always possible to present the very latest changes in the details of these numerous matters, such as shifts in the proportions of foreign ownership of mineral resources or in the membership of international syndicates. There are three points at which the problem of chronology of data should be chiefly noted. (a) Certain statistics concerning colonial area and colonial trade used for illustrative purposes in Chapter Five are, in part, those of the pre-war period; these are obtained from a compilation of the Tariff Commission issued in 1921. In spite of the inevitable lag in availability of official trade statistics of many countries, familiar to all those who deal with such statistics, many later figures are now available. However, these are in widely scattered form, and so far as known they are *not* available in the composite and comparative form there given and adaptable to the particular purposes of this chapter. The former, therefore, are cited, with an indication of their chronological limitations. Nevertheless, properly interpreted they illustrate the principal points concerned. (b) Data concerning foreign ownership of resources and foreign production operations throughout the world are usually extremely scattered, fragmentary, and inaccessible; they are often unofficial and not well authenticated. Where such matters are treated in this study several official and semi-official sources are drawn upon.

which are fairly comprehensive and up-to-date, and these are supplemented with other miscellaneous data. The study does not purport to embrace every detailed development in these matters in every country, but rather seeks to treat these phenomena as illustrating a system, however, every effort has been made to present as complete a picture as possible (c) In dealing with international combines, a number of pre-war and war-time cases are described (with indication that they belong to that period), since some of these combines still exist, and since the post-war developments cannot be understood except in the light of their antecedents. However, very recent cases are also described and analyzed, and the post-war trend, up to the time of this writing, is fully discussed, and its significance indicated. It should also be remarked in this connection that the present manuscript was largely completed during 1927, and that, in general, it does not trace illustrative developments beyond that time; but certain later changes of outstanding interest in early 1928 have been included, in the chapters and in an Appendix.

USES

Considering the object of the present work, the shifts in details of phenomena touched upon are less important than the total pattern. Nevertheless, although not intended as a current handbook of encyclopedic nature, it is believed that the volume will present a reasonably complete and up-to-date account of the problems falling within its scope, and accordingly that it should be useful as a reference work, in addition to its primary purpose of delineating a fundamental system which manifests itself in different forms from time to time.

A further word may be said concerning the possible uses of the volume. While it is written primarily as a treatise,

it is hoped that it may prove useful, not only to specialists, but also to those general readers (of whom there are now a considerable number), business men, and persons dealing with public affairs, who are interested in or concerned with the problems covered. The citations of both official and unofficial, both primary and secondary, sources have been made as complete as possible throughout, not only to make a well-documented study upon the basis of authenticated data, but also in order to add to its utility for the specializing student or other reader who desires to amplify his view of the field by collateral reading and reference. In fact the work is intended, among other things, for use in advanced University courses in International Economic Relations, it can be conveniently adopted for such a course, and supplemented with other materials covering the processes, principles, and policies of international trade, shipping, and finance, presumably in the second semester (or second year in the case of a two-year graduate course), and the outline given at the conclusion of this introduction can be used as a comprehensive plan for the entire course. The plan of the study was evolved in such a way, as the author, after several years of graduate work and some years of professional work in the fields of Political Science, Economics, and History (involving both the political and economic viewpoints), and after a number of years of practical and official experience dealing with problems in the present field (in connection with the United States War Trade Board, Shipping Board, and Department of State, respectively, The American Delegation to the Washington Arms Conference, the United States Interdepartmental Economic Liaison Committee, and the United States Department of Commerce, respectively), for the past six years has given an advanced University lecture course in International Economic Relations. It has been

such experience, of both scientific and practical kind, that has led to the conception and organization of the present analysis.

In concluding this Preface the author wishes to acknowledge the kind service of Dr. William F. Notz, who, though of course not responsible for any errors of fact or interpretation, generously gave the manuscript a careful reading and offered scholarly and helpful criticisms, this kindness is greatly appreciated. Mention should also be made of the usefulness of various compilations of data issued by the Department of Commerce, the Tariff Commission, the Federal Trade Commission, and other branches of the Government. These agencies in recent years have developed increased facilities for the collection of accurate information on current problems in this field, and such information is very helpful in inductive study of the actual processes of international economic relations.

Washington, D. C., May 1928

OUTLINE AND TABLE OF CONTENTS

	PAGE
I BASIC AND RELATED FACTORS IN NATIONAL AND WORLD ECONOMY	I
A <i>The Geographic Factor Environment and World Economy</i> — Chapter I	I
1 Economic Influence of Environment	1
2 The Ocean	4
3 Topography	10
4 Soil	15
5 Lakes and Rivers	18
6 Climate	21
7 The Organic Environment	27
8 The Geographic Differentiation of National Economy	28
B <i>The Social Factor Economic Aspects of the Problems of Race and Population</i> — Chapter II	29
1 Population and Economic Environment	29
2 Racial Economic Capacity	29
3 Economic Aspects of Migration	35
a Migratory Movements	38
b Immigration in the United States	41
4 Population and World Resources	50
C <i>The Political Factor World Organization, Political and Economic</i> — Chapter III	62
1 The Economic Organization of the World The Evolution of World Economy	62
a Independent Domestic Economy	63
b Town Economy	66
c National Economy	66
d World Economy	68

	PAGE
The Political Organization of the World	73
a. States and Their Attributes	74
b. States and International Policies	77
c. Inequality of States	81
d. Qualified Status of States	82
e. Protectorates, Suzerainties and Mandates	83
f. Corporations	85
g. Individuals	87
3. Relation of the Political and Economic Organization	87
D. <i>The Legal Factor — Legal Systems and International Economic Processes — Chapter IV</i>	
1. International Economic Relations and International Law	92
a. State Property	92
b. Private Property	93
c. Property and the Amicable Settlement of International Disputes	94
d. Property and War	95
e. Property and Neutrality	104
f. Export and Import Control	113
g. International Law and Commerce	114
2. International Economic Relations and Municipal (National) Law	117
3. International Economic Relations and the Conflict of Laws	120
a. The Nature of Private International Law	122
b. Private International Law and Economic Processes	128
4. Extra-Legal Adjudication of International Economic Disputes — International Commercial Arbitration	131
E. <i>The Territorial Factor — The Colonial System and Economic Imperialism — Chapter V</i>	136
1. The Colonial System and Economic Imperialism	136
2. Territorial Jurisdiction of States	139
3. Acquisition of Territory	140
4. Colonies, Protectorates, Spheres of Influence and Interest, Mandates	142
5. Distribution of Colonial Ownership	152
6. Economic Types of Colonies	158
7. The Economic Value of Colonies — Their Place in World Commerce and Industry	162

TABLE OF CONTENTS

XXV

	PAGE
8 The Economic Position of the United States in the Colonial System	169
9 Types of Economic Colonial Policy	179
10 Present Trend in Colonial Policy	180
11. The Problem of Economic Imperialism	185
II THE STRUCTURE OF NATIONAL AND WORLD ECONOMY ITS INDUSTRIAL BASIS	191
A <i>National Economies and World Economy Their National and International Structure — Chapter VI</i>	191
1 National Economies	191
2 Industrial Structures	193
3 The National Economy of Great Britain	196
4 The National Economy of Brazil	209
5 Trends in the Relation of National Economies	212
B <i>The National Economy of the United States Its Economic Constitution and International Position — Chapter VII</i>	216
1 Types of National Economy	216
2 Geographic Factors resources, geographic centers of production, etc	217
3. Economic Factors land, labor, capital	222
4 National Wealth and Income	223
5 The Industrial Structure	232
a Primary, Secondary, and Tertiary Production	232
b Primitive, Simple, and Complex Industry	233
c One-Product Systems vs Diversification	235
d Services vs Goods	238
e Predominance of Manufactures	239
6 Population density, location, occupations, rate of expansion	247
7 Other Aspects of Industrialization	254
8 Effects on International Position	257
C <i>Domestic Enterprise and Foreign Activity Status and Organization for External Operations — Chapter VIII</i>	260
1 International Industrial Relations	260
2 The Status of Domestic Enterprise	261
a Incorporation	261
b Combination	265
c Taxation	266
3 Organization and Foreign Business	268
a Forms of Organization	268

	PAGE
2. The Political Organization of the World	73
a. States and Their Attributes	74
b. States and International Policies	77
c. Inequality of States	81
d. Qualified Status of States	82
e. Protectorates, Suzerainties and Mandates	83
f. Corporations	85
g. Individuals	87
3. Relation of the Political and Economic Organization	87
D <i>The Legal Factor Legal Systems and International Economic Processes — Chapter IV</i>	
1. International Economic Relations and International Law	92
a. State Property	92
b. Private Property	93
c. Property and the Amicable Settlement of International Disputes	94
d. Property and War	95
e. Property and Neutrality	104
f. Export and Import Control	113
g. International Law and Commerce	114
2. International Economic Relations and Municipal (National) Law	117
3. International Economic Relations and the Conflict of Laws	120
a. The Nature of Private International Law	122
b. Private International Law and Economic Processes	128
4. Extra-Legal Adjudication of International Economic Disputes International Commercial Arbitration	131
E <i>The Territorial Factor The Colonial System and Economic Imperialism — Chapter V</i>	
1. The Colonial System and Economic Imperialism	136
2. Territorial Jurisdiction of States	139
3. Acquisition of Territory	140
4. Colonies, Protectorates, Spheres of Influence and Interest, Mandates	142
5. Distribution of Colonial Ownership	152
6. Economic Types of Colonies	158
7. The Economic Value of Colonies Their Place in World Commerce and Industry	162

TABLE OF CONTENTS

XXV

	PAGE
8. The Economic Position of the United States in the Colonial System	169
9 Types of Economic Colonial Policy	179
10 Present Trend in Colonial Policy	180
11. The Problem of Economic Imperialism	185
II THE STRUCTURE OF NATIONAL AND WORLD ECONOMY ITS INDUSTRIAL BASIS	191
A <i>National Economies and World Economy Their National and International Structure — Chapter VI</i>	191
1 National Economies	191
2 Industrial Structures	193
3 The National Economy of Great Britain	196
4 The National Economy of Brazil	209
5 Trends in the Relation of National Economies	212
B <i>The National Economy of the United States Its Economic Constitution and International Position — Chapter VII</i>	216
1 Types of National Economy	216
2 Geographic Factors resources, geographic centers of production, etc	217
3. Economic Factors land, labor, capital	222
4. National Wealth and Income	223
5 The Industrial Structure	232
a Primary, Secondary, and Tertiary Production	232
b Primitive, Simple, and Complex Industry	233
c One-Product Systems vs Diversification	235
d Services vs Goods	238
e Predominance of Manufactures	239
6 Population density, location, occupations, rate of expansion	247
7 Other Aspects of Industrialization	254
8 Effects on International Position	257
C <i>Domestic Enterprise and Foreign Activity Status and Organization for External Operations — Chapter VIII</i>	260
1 International Industrial Relations	260
2 The Status of Domestic Enterprise	261
a Incorporation	261
b Combination	265
c Taxation	266
3 Organization and Foreign Business	268
a Forms of Organization	268

	PAGE
b British Organization	270
c. German Organization	272
d Organization in Other Countries	277
e Organization in the United States, and the Webb Law	281
4 The Trend in Organization and Foreign Activity	285
D. <i>Foreign and International Enterprise International Economic Access and World Trusts — Chapter IX</i>	288
1. The Status of Foreign Enterprise	288
a Incorporation	289
i Commerce Codes	
ii Leading Countries	
b Combination in Foreign Enterprise	295
c Taxation of Foreign Enterprise The Problem of Double Taxation	296
d Industrial Property Rights	305
i Patents	
ii Trade Marks	
iii International Patent and Trade Mark Agreements	
e Leases and Concessions	312
2. Organization of Foreign and International Enterprise	315
a International Combines or "World Trusts"	317
b World Production Combines — Older Types	
Cases of combination in iron and steel, textile, tobacco, glass, cement, and other industries	318*
c World Marketing Combines the Metal Trio, etc	324
d World Combines in Service Industries Communications Affiliations	329
e Post-war Developments in World Industrial Combination the Steel Entente and other cases	333
3 The Extent and Significance of International Enterprise	341
4. The Question of International Regulation	343
E <i>Foreign Enterprise in Special Regions The Near East and the Far East — Chapter X</i>	347
1. The Position of Foreign Enterprise in Special Areas	347
2. Foreign Economic Rights and Interests in the Near East Turkey	349
a The Capitulations and the Ottoman Public Debt	349
b. Effects of the World War	351

TABLE OF CONTENTS

xxvii

	PAGE
c The Treaty of Sèvres	352
d The Allied Treaty of Lausanne	354
e The American Treaty of Lausanne	356
f The Position of Foreign Enterprise in Turkey	358
3 Foreign Economic Rights and Interests in the Far East China	361
a The Situation in China Before the Washington Conference	362
i The General Situation Evolution of Foreign Control	
ii Special Foreign Possessions and Interests. Leased Territories, Foreign Residential Areas, Spheres of Interest	
iii The Status of Foreign Enterprise Commercial Treaties, Open Ports, Foreign Post Offices, The Tariff, Industrial Property Rights, Foreign Corporations	
iv The Position of Foreign Enterprise — Concessions and Loans Nature of Concessions, Types of Concessions, Foreign Loans, the Consortium	
b The Chinese Situation and the Washington Conference The Four-Power Treaty, Shantung, the Twenty-One Demands, the Tariff, the Nine-Power Treaty, etc	411
4 The General Problem of Foreign Economic Rights and Interests in "Outlying Areas"	425
F <i>Natural Resources and National Position The Interdependence of Nations for Essential Materials — Chapter XI</i>	427
1 The Effect of Resources on National Economy	427
2 The British Position	431
3 The Position of the United States	433
a Share of the United States in World Production	433
b The Position as Regards Agricultural Resources	436
c The Position as Regards Forestry and Fishery Resources	439
d The Position as Regards Organic Products in General	439
e The Position as Regards Power and Mineral Resources	440
1 Water Power	

	PAGE
b British Organization	270
c German Organization	272
d Organization in Other Countries	277
e Organization in the United States, and the Webb Law	281
4 The Trend in Organization and Foreign Activity	285
D <i>Foreign and International Enterprise International Economic Access and World Trusts — Chapter IX</i>	288
1 The Status of Foreign Enterprise	288
a Incorporation	289
1. Commerce Codes	
ii Leading Countries.	
b Combination in Foreign Enterprise	295
c Taxation of Foreign Enterprise The Problem of Double Taxation	296
d Industrial Property Rights	305
1 Patents	
ii Trade Marks	
iii International Patent and Trade Mark Agreements	
e Leases and Concessions	312
2 Organization of Foreign and International Enterprise	315
a International Combines or "World Trusts"	317
b World Production Combines — Older Types	
Cases of combination in iron and steel, textile, tobacco, glass, cement, and other industries	318
c World Marketing Combines the Metal Trio, etc	324
d World Combines in Service Industries Communications Affiliations	329
e Post-war Developments in World Industrial Combination the Steel Entente and other cases	333
3 The Extent and Significance of International Enterprise	341
4 The Question of International Regulation	343
<i>Foreign Enterprise in Special Regions The Near East and the Far East — Chapter X</i>	347
1 The Position of Foreign Enterprise in Special Areas	347
2 Foreign Economic Rights and Interests in the Near East Turkey	349
a The Capitulations and the Ottoman Public Debt	349
b. Effects of the World War	351

	PAGE
c The Treaty of Sèvres	352
d The Allied Treaty of Lausanne	354
e The American Treaty of Lausanne	356
f The Position of Foreign Enterprise in Turkey	358
3 Foreign Economic Rights and Interests in the Far East China	361
a The Situation in China Before the Washington Conference	362
i The General Situation Evolution of Foreign Control	
ii Special Foreign Possessions and Interests Leased Territories, Foreign Residential Areas, Spheres of Interest	
iii The Status of Foreign Enterprise Commercial Treaties, Open Ports, Foreign Post Offices, The Tariff, Industrial Property Rights, Foreign Corporations	
iv The Position of Foreign Enterprise — Concessions and Loans Nature of Concessions, Types of Concessions, Foreign Loans, the Consortium	
b The Chinese Situation and the Washington Conference The Four-Power Treaty, Shantung, the Twenty-One Demands, the Tariff, the Nine-Power Treaty, etc	411
4 The General Problem of Foreign Economic Rights and Interests in "Outlying Areas"	425
F <i>Natural Resources and National Position The Interdependence of Nations for Essential Materials — Chapter XI</i>	427
1 The Effect of Resources on National Economy	427
2 The British Position	431
3 The Position of the United States	433
a Share of the United States in World Production	433
b The Position as Regards Agricultural Resources	436
c The Position as Regards Forestry and Fishery Resources	439
d The Position as Regards Organic Products in General	439
e The Position as Regards Power and Mineral Resources	440
1 Water Power	

	PAGE
ii Coal	
iii Petroleum.	
iv Iron	
v The Major Minerals.	
vi Other Minerals	
4 The Total Position of the United States	445
5. International Dependence for Essential Materials	445
G <i>Public Foreign and International Control of Raw Materials The Question of World Monopoly of Essential Supplies — Chapter XII</i>	447
1 Types of Control of Materials Valorization Plans	447
2 Governmental Import and Export Controls	448
a Import Duties	448
b Export Duties	450
i Jute and India	
ii The British Attempt at Rubber Control	
iii Other Cases	
c Preferential Duties Tin and Other Cases	455
d Trade Prohibitions Pulpwood and Other Cases	458
3 Governmental Production and Marketing Controls	460
a Governmental Regulation and Assistance	462
i Coffee Valorization in Brazil	
ii The Mexican Sisal Monopoly	
iii Italy, America, and the Sulphur Industry	
iv Cuban Sugar Defense	
v. Chile and Nitrates	
vi Other Cases	
b. Governmental Participation	484
1 Camphor and the Japanese Government	
ii The Mercury Case	
iii Phosphates at Nauru	
iv Franco-German Potash Manipulation	
4 The Problem of Public Raw Material Control and Possible Solutions	489
a National Policies	490
b International Policies	500
5 Public Control vs Private Exploitation	502
H <i>Special World Resource Problems Petroleum and Diplomacy — Chapter XIII</i>	503
1 The World Petroleum Problem	503
2. Industrial Importance of Petroleum	507

TABLE OF CONTENTS

xxix

	AGE
3 Reserves and Production	510
4 Position of the Industrial Powers	513
5 Private and Governmental Foreign Exploitation	514
a Companies	515
i Standard	
ii Anglo-Persian	
iii Royal Dutch-Shell	
b Countries — and foreign companies	518
i Mexico	
ii South America	
iii. Canada	
iv Dutch East Indies.	
v China	
vi British India.	
vii Russia.	
viii Rumania	
ix United States — and foreign Companies	
c Position of Leading Powers	526
Petroleum Policies of Governments	527
a National Restrictions on Production	527
i British Empire	
ii The Netherlands	
iii. Others	
iv Mexico	
v The United States	
b Mesopotamia, San Remo, and Lausanne	549
 I <i>Private Foreign and International Exploitation of Raw Materials The International Character of the Bases of Industry — Chapter XIV</i>	561
1. Private Exploitation as Contrasted with Public Control	561
2 Agricultural and Forest Products — Foreign Ownership	562
3 Foreign Ownership and Development of Mineral Resources	566
a Coal	567
b Iron	568
c Ferro-Alloys	569
d Major Non-Ferrous Metals	573
e. Other Minerals Aluminum, Asbestos, Diamonds, Platinum, Silver, Gold, etc	581

xxx OUTLINE AND TABLE OF CONTENTS

	PAGE
4 The Significance of Foreign Exploitation the Inter- national Bases of Industry	589
J <i>World Economy and World Politics The Processes and Policies of International Industrial Relations — Chap- ter XV</i>	591
1 The Setting of World Economy	592
2 The Structure of World Economy	597
3 Ramifications of the Structure and International Problems Involved	602
4 Governmental Policies	612
5 Non-Governmental Processes	618
APPENDIX	621
OUTLINE FOR FURTHER STUDY	666
INDEX	669

INTERNATIONAL ECONOMIC RELATIONS

PART I

Basic and Related Factors in National and World Economy

CHAPTER I

THE GEOGRAPHIC FACTOR

ENVIRONMENT AND WORLD ECONOMY

A SYSTEMATIC treatment of the existing political economy of the world, dealing first with the basic and related factors which compose the setting in which that structure is placed, necessarily begins with a consideration of the geographic environment. This geographic factor and the social environment together may be denoted as the basic factors, while the political, legal, and territorial factors may be termed related ones. Much that may be said of them is in some measure commonplace — it has been said that “science is organized common sense” — and much that might be said of them would constitute a series of separate treatises and must be merely touched upon here, but it is most essential to posit these factors and to suggest their economic aspects in order to understand the background against which the structure of world economy stands and

consequently later to analyze the actual parts and processes of that structure

Just as the geographic environment in which man has found himself has fundamentally conditioned his individual industrial and commercial activities, so consequently has this environment been a fundamental factor in the development of economic groups and of international economic relations. That geographic influences condition all manner of human activities is now a familiar enough concept in many branches of science, but its peculiar significance in the political economy of the world lies especially in the fact that the geographic factor is the one most fundamental cause of territorial division of labor or regional specialization in industry and therefore of international exchange of goods and other values. This localization of industry leads to the international exchange of unlike products, and international trade, while not so basic as the industrial process, is the most obvious process in international economic relations; it is what might be termed the tying process, and is the one about which revolve and upon which are built others, such as the financial one. In the case of another international economic process, namely, shipping, the geographic basis is even more obvious, though no more fundamental. Or, turning from what might be considered an abstract view of the matter to a concrete consideration of certain practical world problems which appear in a more or less spectacular manner at the present time, there may be noted such phenomena as the so-called international struggle for colonial territories or concessions in backward areas because of the agricultural resources or the mineral deposits or other geographical advantages involved. For example, according to some writers, the present rivalry between nations is largely a struggle for petroleum resources.

A fundamental principle involved here which is of peculiar importance is the truth that to a remarkable extent these natural international processes are much more compelling in molding the relations of nations than are artificial manipulations by means of laws and regulations, while the exact extent of this truth cannot be calculated, it may be readily observed through a careful examination of these natural influences, for example of the influences of resource location, of natural transportation facilities, and even of climate. Such phenomena as international location and relation of industries and international trade and its associated processes have within themselves a certain characteristic of inevitableness and of the inexorable. Such devices as tariffs, ship subsidies, and foreign loan restrictions may partly divert or even partly expand or contract the course of international economic events, but when all the factors are considered the conclusion appears that these alterations are more or less temporary and more or less limited and that the operations themselves flow steadily on largely in spite of impediments.

It is unnecessary to enumerate and elaborate upon all of the various features of the geographic environment in order to show their effect upon international economic relations, such matters comprise a study in itself, falling partly under the usual caption of "commercial geography," which in its detailed form is largely assumed for present purposes.¹

¹ On economic geography in general, *vide* Semple, Ellen C., *Influences of Geographic Environment on the Basis of Ratzel's System of Anthro-Geo-Geography*, N. Y., 1911, Smith, J. Russell, *Industrial and Commercial Geography*, new edition, N. Y., 1925, Jones, W. D., and Whittlesey, D. C., *An Introduction to Economic Geography*, Chicago, 1925, Gregory, H. E., Keller, A. G., and Bishop, A. L., *Physical and Commercial Geography*, N. Y., 1910, Huntington, E., and Williams, F. E., *Business Geography*, 2d ed., N. Y., 1926, Whitbeck, R. H., and Finch, V. C., *Economic Geography*, N. Y., 1924, Smith, J. Russell, *North America*, N. Y., 1925.

Cf. also (on localization of industry) Weber, Alfred, *Ueber den*

However, the principal aspects of physical geography in so far as they influence the industry and commerce of the world may be considered with the particular purposes of the present study in mind. Following a category laid down by certain physical geographers, this factor may be considered under such headings as the ocean, topography, soil, land waters; atmosphere and climate, and organic environment. Without analyzing each of these environmental phases from the viewpoint of physical geography, or geology, or meteorology, or biology, they may be examined broadly in order to observe their conditioning effects upon the development of economic civilization, including the stratification of society into separate regional economic groups on the basis, largely, of the fundamental processes of national geographic division of labor.

THE OCEAN

The ocean clearly has been an important factor in economic civilization and has had very definite effects upon the economic destiny of nations. Covering much more of the earth's surface than is ordinarily realized, approximately 72 per cent, it has paradoxically both retarded and assisted international commerce, retarding it for the most part in earlier times when navigation was not highly developed and facilitating the interchange of products widely in modern times when navigation was highly developed.

Its principal superficial divisions, familiar in elementary

Standort der Industrien, I Teil — *Reine Theorie des Standorts* (II Teil — *Die Deutsche Industrie seit 1860*, a series of monographs, Tübingen, 1922), and various works of Penck, Albrecht, of the Berlin Universität Institut für Meereskunde, including studies of regional geography, e.g. *Die Österreichische Alpen-grenze*, Stuttgart, 1916, also Penck *et al.* (Kirchhoff, Alfred, ed.), *Unser Wissen von der Erde*, Prag, 1886-893.

On the influence of geography on states, *vide*, Gettell, R. G., *Introduction to Political Science*, Boston, 1910, Chapter III.

geography, namely the Atlantic, Pacific, and southern oceans, together with smaller seas and gulfs, offer rather striking commercial characteristics. Thus the Mediterranean Sea has been called the "Cradle of World Commerce" because of its great importance in antiquity as the scene of the economic relations of the earlier civilizations of Egypt, Carthage, Greece, and Rome. Again, in modern times, the Atlantic and the Pacific Oceans stand out in commercial contrast, with the Atlantic obviously the base of the much larger amount of traffic. The Pacific is the larger ocean, covering an area of approximately 70,000,000 square miles, against approximately 35,000,000 square miles for the Atlantic. Thus the Atlantic, one-half the size of the Pacific, much exceeds the latter in international trade, and the geographical explanation lies in the fact that the Atlantic physically, and therefore commercially, drains an area more than twice as great — 19,000,000 square miles, as against 9,000,000 square miles. In a word, the Atlantic possesses the greater volume of international trade because it has a much larger commercially tributary area. That it happens that many of the economically most advanced nations lie in the Atlantic tributary region, for still other geographical reasons, only serves to heighten the comparison.

From physical geography are to be obtained categories of movements of the ocean waters, including waves, seaquakes, or tidal waves, wave currents, tides, and currents. All of these features have economic effects and in their presence or absence differentiate the economic facilities of nations. They cause decretion and accretion of territory of interest in international law. In their violent forms they devastate cities and industries, the most striking example of this in recent years was the Japanese disaster of 1923 which temporarily disorganized many of the fundamentals of the en-

6 *INTERNATIONAL ECONOMIC RELATIONS*

tire Japanese national economy, including even its financial structure. They alter and frequently equalize climate, it is perhaps trite to observe that the British Isles, which comprise in a sense the point of the most intensive economic development in the entire world, it is supposed, would not be habitable were it not for the Gulf Stream. But in the largest probability, the greatest effect of these phenomena is upon international transportation, they affect the sailing of the seas and consequently give advantage or disadvantage to one nation or another by their effect upon harbors, in many cases necessitating the building of piers and breakwaters, the dredging of channels and the harbor engineering work which is often necessary for the maintenance of a successful port. Indeed the possession or non-possession of favorable coasts and harbors has been highly involved in making some nations commercially great and others less so. It may even be said that this factor has been involved in causing some continents to be the home of economically strong nations and other continents places of undeveloped nations which now tend to be exploited by the commercial and maritime nations of the more favored continents. There may be numerous causes of the relative lack of economic development in Africa, but one of them is this geographic factor. Africa has a comparatively regular coast line with few indentations, whereas Europe, the scene of such concentrated economic activities in modern history, has an irregular coast line and consequently numerous harbor facilities. This was not so much a factor in primitive times, but with the development of keeled ships which are the basis of modern navigation, harbors became necessary, and good harbor characteristics have been enumerated as follows: sufficient depth for anchorage; protection from waves and wind; sufficient size of anchorage ground, reasonably straight channel, free from currents and

shifting sands; freedom from ice closure, convenient access to the hinterland, location at crossroads of world trade. Most of these requirements are obvious and are matters of harbor engineering. Others have more unusual or more direct commercial significance. A good many nations have been limited in the development of their external commerce by having ports at which ocean-going liners can anchor only off-shore and transfer goods by lighter. On the other hand, the peculiar problem of ice closure has been best illustrated in the case of Russia; that country, with vast area and resources and many other ingredients of economic supremacy, has for centuries been hemmed in from access to the largest lines of world exchange, the far-eastern outlet being removed from the European one; the Mediterranean outlet having been at least until recently dominated by rival powers in such a way as to cause long standing national enmity, and the Baltic ports which otherwise might have given the necessary gateway to world trade, having been largely limited in year-round usefulness by this very condition of ice closure.

This is but one example of the direct effect of the geographic influence upon national economic destiny. Again, the supremacy of the port of New York in the United States and its high rank among all the ports of the world, while doubtless due in part to purely economic factors such as the building up of the necessary trading and financing machinery for foreign trade, has been primarily due to the excellence of its geographic characteristics, including its natural valley gateway to a large interior. Finally, to mention but two more examples, Hongkong and Singapore, outstanding ports in the Far East, have been successful, largely because of location at trade crossroads. Hongkong is, of course, a natural entrepôt for a large portion of South China and the business advantages of such an entrepôt are a familiar thing in in-

8 *INTERNATIONAL ECONOMIC RELATIONS*

ternational commerce, including presence of warehouses and branch houses and quickness of original delivery as well as of replacements. Singapore is an even better case in point; located at the tip of the Malay Peninsula which juts out from the southeastern Asiatic mainland, it stands fairly in the center of the round-the-world highway and even excluding its rôle as a primary market for rubber and tin, its volume of traffic and especially of trans-shipment, is explained geographically.

• The comparative port question may be viewed in still another way by referring to physical geography's classification of types of harbors. Drowned valley harbors, where ground has sunk and the sea has entered a valley, give good protection and easy access to the interior, the United States' possession of Norfolk, Baltimore, Vancouver, Seattle, and New York has counted in its commerce, and Argentina and Brazil have been favored with Buenos Aires and Rio de Janeiro. River harbors, harbors up rivers, while involving delta and other engineering problems, give good protection and unusual access to the interior, so London, Hamburg, New Orleans, Portland, Calcutta, and Shanghai offer examples in England, Germany, the United States, India, and China. Few other harbors are as good as these types. Barrier harbors, such as that at Galveston, give fairly good protection and interior access, but frequently have little depth and much shifting sand. Coral-reef or atoll harbors, such as that at Key West, usually have tortuous entrances and no hinterland. Crater harbors made by submerged volcanoes are rare, although they are found at such places as Lyttleton, New Zealand, the port of Christchurch, and Aden, Arabia. • Of much significance is the fact that although harbor engineering is always involved at great ports, there can scarcely be said to be such things as successful artificial harbors,

even though Glasgow may be a near approach to that. It is clear that possession or non-possession of natural harbor facilities has counted in the international competition for economic success.

Oceans, then, like mountains, have, especially in earlier times, constituted considerable barriers to international economic intercourse, forming in fact natural national boundaries, but, with the development of navigation, have obviously promoted that intercourse although with national inequalities. Of chief significance, are their advantages in transportation, which include the obviation of costly road-bed and freedom of choice of routes, so that, other things being equal, and when much trans-shipment is not necessary, ocean traffic has been the cheapest and has made international trade frequently more facile than domestic trade.

If any further emphasis of relative national advantage in this connection is needed, there may be compared in broadest terms, nations which have not possessed access to the ocean with those that have, or, indeed with those which have had a totally maritime position and which have therefore naturally bent their commercial energies in an outward direction. The fortunate position of the United States may be noted, with its many good harbors and its early success in navigation and its considerable proportion of total world trade. Or, there is the case of Great Britain, in one sense the economically most successful nation of modern times, with its predominating share in the world's trade, its preponderating merchant fleet in world shipping, and its possession of a colonial empire—in considerable measure an economic empire—vaster than any other. The British, with relatively limited domestic agriculture and mineral resources, unless they were to lapse into insignificance, were compelled to develop manufacturing industries the products of which they

would sell in many lands, they had to go far and wide to dispose of these products and to fetch food and raw materials for a congested population. Thus literally thrust, geographically, into the sea, they conquered it and so bound up a trading, shipping, and financing system that commands the admiration of modern economic civilization, and an "empire upon which the sun never sets." Trade, shipping, and banking based upon compensating industrial structures, are the ties that bind such a "commonwealth of nations." So that one of the greatest media of this and other similar developments has been that phase of the geographic environment called the "Seven Seas."

TOPOGRAPHY

Again, in the topographic features of the economico-geographic environment there are found fundamental explanations of international economic organization, intercourse, and rivalry. The irregularities of the lands have most obviously helped to shape the political and military careers of nations, but they have been at least equally important in molding national economic destiny.

One of the first phases of the land areas of the globe which is to be observed from this viewpoint, is their very great limitation in size. It has been remarked that the oceans cover nearly three-fourths of the earth's surface and when from the remainder are subtracted those sections which are entirely unsuitable for economic development because of unfavorable relief, the confinement of the agricultural, extractive, and manufacturing industries to approximately a tenth of the earth's total area, is striking. In this tiny tenth, nations have crystallized and have carried on their struggle for national livelihood and national economic advantage. Just as continents as well as particular countries may be

contrasted from the viewpoint of their relations to the ocean, so also may they be compared in a topographical way in order to arrive at a more basic understanding of their relative economic development. Again Europe and Africa offer an interesting illustration by reason of their dissimilarity in degree of such development. Of Europe, it is observed from geology, approximately 54 per cent is less than 600 feet above the sea level and that continent contains many low plains which have been highly suitable for agriculture and trade and for the manufacturing of modern times. Of Africa more than 87 per cent is over 600 feet in height and there are found extensive plateaus. Of Asia, 38 per cent, it is estimated, is more than 3,000 feet above the sea and that continent with its immense mountains and high plains has an average height of 2,884 feet. The limitation of economic activities in general by reason of a too rugged relief is here evident, and again there is a fundamental explanation of the remarkable concentration of economic activity in Europe.

Allusions to some of the so-called major land forms will give further evidence of the varying types of national advantages or disadvantages by reason of possession or non-possession of geographic facilities. Reference may be made to one very important topographical type, namely, plains. These are in general highly favorable for agriculture, transportation, and manufacturing, and if with them are included the valleys which are found in connection with them, it is estimated that they are the home, collectively, of approximately 90 per cent of the world's population, this is true in spite of the fact that to a considerable extent they lack relative availability of mineral resources when compared with other topographical types. They are of various sorts. Terraces along rivers have been natural sites for many important

industrial and trading centers such as London. Lake-bed plains, such as that comprising an important part of the North American wheat belt of Minnesota and the Dakotas, have made good agricultural lands. Flood plains have also favored agriculture, as in antiquity along the banks of the Nile, and in recent times in the lower Mississippi basin, but have involved some danger to crops and trouble and expense as in the building of levees. Flood plains suggest a natural destructive process beginning with deforestation in the upper reaches of a river system and soil erosion, thereby involving at the same time the whole series of problems of conservation of timber, soil, water-power, and inland navigation facilities, as well as the problems of floods in the lower areas and harbor difficulties. That such a phenomenon has vitally affected the economic position of an entire nation is evidenced in the supposition that this process went on for centuries on a large scale in China and that its results account for a considerable proportion of the present impoverishment of that nation in the various ways indicated. Deltas have had an effect largely similar to that of flood plains. Coastal plains have been important assets to nations by reason of a number of their basic advantages. They may be comparatively suitable for agriculture, but their chief significance lies in the frequent presence in them of rapids and waterfalls which have been caused by the plunging of rivers from higher strata into a softer stratum and which consequently have given a form of power much used throughout history and now coming into a great industrial importance, in their ease of transportation, in their accessibility to harbors, in their usual proximity to both the resources of the mountains and the markets of the lowlands, and in their natural location for the exchange and trans-shipment as well as for the fabrication of the unlike products assembled there from different

sections and nations. They have thus become the centers of a large amount of manufacturing and trading and some of the most successful industrial countries partly owe their supremacy, as in the cases of western Europe and of the United States, to possession of such plains. Valleys are difficult to distinguish sharply from plains of which they are frequently a part, but if they are not entirely divided from the plains, they may be looked upon as comprising the commercially most useful topographical type. Their natural shelter, their abundance of other forms of life facilitating agriculture, their easy relief, their reasonable degree of confinement which prevents too great scattering of economic activity into a nomadic form of economy, their supply of water for industrial and other purposes, and above all their furnishing a very suitable basis for practically every kind of transportation from river navigation to paths, highways, and railways, combine to make them what they have often been called, "the cradle of commercial civilization," and the location of the highest development of economic group life. They are found in the most highly developed countries and it is probably true that no nation without them has ever attained economic superiority.

In contrast with plains and valleys stand mountains and the plateaus which are so frequently associated with mountains. Countries too largely composed geographically of such areas undoubtedly have been impeded in their economic development because of the relatively unfavorable character of these formations for agriculture as well as for manufacturing and trading. So much in the nature of obstacles are these forms that they have remained largely undeveloped and have even comprised in many instances the natural boundaries between nations. On the other hand, they do possess certain advantages for production. Thus, while they

usually limit both the quality and the quantity of all sorts of organic products it has been pointed out that in certain instances they improve quality, as in the case of some types of fruit growing in the United States or of certain agricultural industries found on the terraced mountain slopes of China and Italy. It is also evident that there are certain characteristic mountain industries. They may include sheep raising, although the large sheep industries of Australia, South America, and British South Africa are not the most apt illustrations. Two well-known "colonial" products, coffee and tea, are often the products of fairly rugged regions, as illustrated in Ceylon, parts of India and southeastern China, the development of the world's largest coffee-growing business in Brazil thus has been partly contingent upon Brazilian possession of the mountainous regions of Sao Paulo.

Again the world's lumbering industry at present has been localized to a not inconsiderable extent in the mountains. This is apparently not due to an original lack of timber on other types of relief, but has been due rather to the natural depletion of timber in the lower regions as they have been developed by agriculture and manufacturing. However, there is a considerable natural concentration of the type of wood which is now industrially very important, namely the coniferous, on the higher altitudinal belts. In any event many of those nations which are now important producers of the commercially most favorable types of wood are so largely through the possession of mountain areas. Finally, an important branch of the mining industry is largely characteristic of the mountain areas. For various geological reasons, including the natural thrusting of veins to the surface and therefore to accessibility, ores are actually obtained very frequently in rugged sections, although this does not necessarily apply to other mining products, such as petro-

leum or even coal, which are of different original form from metals

There can be no doubt that varying topographical conditions have in a large measure increased and decreased in certain important respects the economic advantages and disadvantages of nations and have accelerated their industrial differentiations upon which their trade with each other so largely rests

THE SOIL

Soil is one of the most obvious geographic bases of the entire group of agricultural industries, because of the direct dependence of plants upon it as well as of the indirect dependence of all of the animal industries for their feed supply. The total dependence of modern industrial life upon the agricultural group is worth reemphasis since from these industries are obtained not only practically all of the human food supply but also, even in this so-called metallic age, many vital raw materials for manufacture, including such staples as cotton, leather, wool, and plantation rubber. There may also be recalled the geographers' dictum that the agricultural industries are the permanent ones because if conducted with any degree of foresight or scientific method, they do not involve the exhaustion of resources found so largely in the extractive industries such as mining and lumbering. Consequently it is not an over-statement to say that no nation has become great in an economic way without either having well established agriculture of its own, or, by political or economic methods, rendering other large agricultural regions tributary to it for a supply of food for its population and raw materials for its industries

Without becoming concerned with the various classifications of soils and of the plant foods in them, it may be observed that striking contrasts are to be found in kinds of

soils and in relative degree of soil fertility. It is particularly to be observed that the necessity of artificial soil fertilization has become so widespread, involving especially three plant elements, that there have evolved three major commercial fertilizer industries, important currents in world trade in their products and, as a result, a very interesting commercial interdependence of some of the leading economic powers. Thus, many commercially important countries are dependent partly upon Chile and partly upon Norway and other European countries for the natural or Chilean and the artificial, air, or Norwegian nitrates; many countries have a similar dependence upon Germany and France, particularly the former, for potash, while there is, in some cases, a somewhat similar dependence upon the United States for phosphates. For example, the scarcity of supplies of potash in the United States during the World War was a real problem arising from this near-German monopoly of one of the world's important products and at the present time there is a movement to develop native air nitrate supplies in the United States, partly perhaps through the completion of the Muscle Shoals project.

The soil question presents the interesting problem of reclamation and this in turn is illustrated in a comparative national way by reference to the long-staple cotton industry. It is true that reclamation includes drainage, which may make of a Florida Everglade region an important agricultural area, but irrigation thus far has been the most important type. As an example of this, the British during their economic and partly political domination of Egypt have by the development of a vast system of dams and ditches, made possible the growth of one of the world's distinctive and important agricultural products. This whole plan may be said to have been begun as a move to free the British textile in-

dustry from its dependence upon other countries, notably the United States, for its supplies of ordinary short-staple cotton, but in any event it actually resulted in a peculiar type and quality of product. With the subsequent advent of the automobile, the United States became much the largest automotive producer in the world and an important auxiliary industry became the production of cord tires which tended so largely to supersede fabric tires. The cord tire industry in turn has thus far been largely dependent upon long-staple cotton. It is needed because of its tensile strength. To a limited extent the long-staple cotton industry is being developed in arid sections in the southwestern part of the United States under substantially the same geographic conditions as exist in Egypt. All this rests upon the fact that certain soils in extremely dry places are by no means barren and when sufficient water is added, a desert may veritably "blossom as a rose." Thus in a transformation basically conditioned by soil did one important industrial power fail perhaps to lessen its commercial dependence upon another for one major raw material but succeed in bringing about partly a reversal of commercial dependence for another staple essential for a major industry.

One further phase of the soil question in international economy may be mentioned. In the various estimates that are sometimes made by commercial geographers and commerce analysts of the possibilities of increasing the world's total output of products, especially foodstuffs, to provide for a possibly expanding human population, differing appraisals are placed upon the various parts of the world which are not now greatly used and which might be more intensively developed, and among these relatively unused areas the tropics always figure prominently. In this speculative phase of world economy there are a good many arguments both for

and against a large natural bounty in the tropics but the most important point of the controversy has to do with soil values. Some of the soil experts look upon the large areas of tropical growth as very rich because of the accumulation of much decayed vegetable matter, while others heavily discount these possibilities because of a probable leaching process which may have rendered the soil relatively infertile. Furthermore the development of such areas in recent periods has been to a large extent carried on through economic domination by the more advanced industrial countries, as in the case of production of rubber and vegetable oilseeds and numerous other articles in colonial territories.

In all instances, soil has clearly conditioned the economic fate of nations. What proportion of the economic advancement of the United States is based on its agriculture, which is probably in the aggregate the largest in the world, is difficult to say, certainly the proportion is large. The economic success of Great Britain, which lacks a sufficient area in its home islands to supply anything like its own agricultural needs, is in this respect one of the paradoxes of modern economic history and is explained only by the large political ownership and industrial control of many other agricultural regions. When Lord Balfour in an address at the Washington Arms Conference argued against submarine warfare, and very frankly and in simple terms gave as his reason the dependence of Great Britain for foodstuffs, he gave a very striking illustration of the constant dependence of one of the leading industrial nations upon a commercial inflow of agricultural products from other territories and countries.

LAKES AND RIVERS

Inland water bodies, like other features of the physical environment, have influenced the economic life of nations.

The "waters of the lands" as classified in geography include ground and surface waters, and the former have an obvious relation to the agricultural industries, but lakes and rivers are of more immediate significance

Rivers, together with their valleys, have been most obviously of economic value, and providing as they do the natural basis of so much of the transportation of history have easily become the threads upon which the beads of economic civilization have often been strung, they are indispensable arteries of the traffic of most of the economically advanced countries. Nor have their power sites been without a large importance to those nations which evolved the manufacturing industries, in both the earlier ages of the simple mill wheel industries and the new era of hydro-electric development. Water power is even sold by nations which have mountains and water-falls to those which have not, electric current is purchased by Denmark for use in Copenhagen, from her Scandinavian neighbor across the Sound. Marked contrasts exist between different regions and countries in the matter of water-power resources, and this is of much importance at the present time in view of the increased use of such power. The United States possesses large water-power resources, although the largest proportions are not located in the parts of the country where there is the greatest degree of manufacturing development. The industrialized nations of western Europe have comparatively limited resources of this kind, whereas the greatest water-power resources are in Africa, where they are comparatively little needed at present. Again, England, highly industrialized, has very limited water-power, though she has great coal reserves, while Italy, with her industrialization partly checked by lack of coal, is in the present period developing water-power consider-

ably and is partly freeing herself from her coal import dependence

Lake have been called "characteristics of topographic youth" and "temporary features of the landscape," and in their geological disappearance have yielded fairly important mineral deposits of salt, borax, and soda, and highly important agricultural fertility as in the case of a part of the wheat belt of the United States and Canada

Inland water transportation is recognized as having been of great historical importance, as in the construction of a canal system which was a potent factor in the economic unification of Germany and in the early growth of transportation systems in the United States, but is now generally considered to be of somewhat less comparative value because the natural elimination of friction and consequent reduction of fuel costs is frequently offset by the inadaptability of the route to traffic needs and the resulting enhancement of costs through much trans-shipment, one of the most expensive of all traffic processes. But this difficulty, while it may have checked the growth of canals, has by no means eliminated natural inland water bodies as factors in both national and international trade to the very considerable extent that they conform to traffic needs, and there are indications of greater future development of river transportation, as in the United States

Lakes and rivers both cause international economic controversy and promote international economic intercourse. The Great Lakes are a part of the transportation route for much American wheat destined for export from New York, form a vital traffic bond in the friendly commerce of the United States and Canada, and are the key to an international scheme, the St. Lawrence project, involving the possible cooperative development of both water-power and a

new major water-way by these two countries. And in the Rhine, which runs its long commercial course from Switzerland through Germany and Holland to the sea, may be found one more illustration of the effect of inland water bodies upon the economic relations of nations.

CLIMATE

Probably even more than other phases of the environment has climate caused economic differentiation of nations, for it is almost a commonplace that the unlikeness of products which lies at the base of all international trade is most sharply apparent in different climatic areas. In analyzing the fundamental conditions influencing the different agricultural industries, there is often reference to what is called the climatic optimum, that is, the climatic belt within which a particular product is best produced. Indeed it has been asserted by some that this climatic differentiation of industries is so fundamental and so much sharper and less artificially changeable than other types of geographical conditioning of products that the ultimate international trade of the future may be expected to be largely a north and south trade, since north and south offer greatest contrasts in climatic conditions. Artificial controls and other factors, however, may check such a transformation.

Climate is a condition of the atmosphere and consideration of it may here include suggestion of the various atmospheric phenomena. The physical properties of the atmosphere include both a pressure proportional to density and a relatively high degree of elasticity, these properties have been utilized in the development of machinery motive power and air-brakes in transportation. They have also been the basis of the modern pressure systems which have marked such a great advance in the packing of certain commodities.

for shipment, for example the old crude methods of baling cotton have given way to these pressure methods with the result that a ship can obtain a much larger weight-load capacity before the space-load capacity has been filled and this has greatly cheapened international traffic in one of the most important staple commodities. Chemically, the atmosphere is composed of gases, the largest portions of which are nitrogen and oxygen, the carbon dioxide and oxygen are necessary to life, and the nitrogen while little used naturally in proportion to the supply in the air, is very valuable, so that marked advances have been made throughout the agricultural industries of some countries partly by the discovery of a method of inoculating leguminous plants so as to give them a capacity for seizing this nitrogen and very extensively by the development of the air nitrates of commerce as substitutes for the natural or Chilean nitrates. The varying water vapor content of the atmosphere, aside from its obvious effects upon human life, also has had industrial importance. An unusual degree of humidity was until not many years ago a not generally realized yet extremely important factor in the textile manufacturing supremacy of Great Britain and to some extent of New England. This was true because the dampness of the atmosphere in the large textile fabricating centers of Great Britain prevented the "fuzzing" of the fibers and therefore made them workable. This condition was to a considerable extent present in New England, and there again in spite of many other contributing factors in the growth of the industry, it is unlikely that the business could have been developed in the early days without this fortunate trick of geographic fate. It was partly in this way that such manufacturing centers were maintained at a point considerably removed from the principal areas of production of the raw material, which system had obvious disad-

vantages even though proximity of manufacturing to raw material producing point is by no means the only factor in the localization of industry. It was the advent of artificial humidification of textile mills that gave the geographical release which, together with certain other factors such as the migration of capital and skilled labor, is making possible the growth of important cotton textile manufacturing centers in the southern part of the United States, thus an atmospheric phenomenon until recently helped to cause an important raw material to be shipped long distances nationally and also internationally to the fabricating centers even though the finished product in some cases was shipped back for marketing in a raw material area—a not necessarily wasteful process.

The various motions of the atmosphere, such as the different kinds of winds and breezes and storms, have had an economic effect largely upon international transportation, so much of which is by sea and some portion of which is still carried on by means of sailing ships, these motions have been in this way both useful and destructive and the destruction has also extended to agriculture. However, a more striking but less general influence of this type is found in the case of the monsoons. These violently shifting wind belts occur in the general region of the Indian Ocean and southeastern Asia and are fateful forces in the economic life of India and neighboring countries. They are depended upon for necessary rain for agriculture (the prevailing industry of the tropics) and if late cause drought and economic depression generally, yet upon their arrival they may cause destruction of crops, buildings, and ships. An illustration of the effect of this upon an entire national economy is found in the case of Siam. This country's chief export is rice, which is depended upon largely for food for the entire popu-

lation and when exported for the merchandise trade balance by which the country may purchase its imports. When the monsoon is unfavorable there is a shortage of this product which frequently leads to an export embargo, threatens national famine and greatly limits importation of other goods. It is for just such a reason that exporters of manufacturing nations such as Great Britain and the United States who are developing the markets of southeastern Asia carefully follow the coming and going of the monsoons with an eye to increase or decrease of their international business.

Considering climate as a whole it is observed that it is largely a composite of certain conditions of temperature and rainfall and that these conditions in turn are affected by latitude, altitude, vicinity to the sea, winds, ocean currents, and topography. The variations of climate resulting from varying effects of these factors, as for example the quantity of rainfall, are so obvious in their effects upon agricultural development of nations that they need not be enumerated. But the out-standing fact that the climate, probably more than such factors as the topography and the soil, is as yet largely outside of artificial control, emphasizes the very fundamental principle alluded to above, that industrial differentiation among nations, at least with respect to food-stuffs and agricultural raw materials, is predominantly influenced by climate. The supposition that the international trade of the future will be a north and south trade in the main, because the sharpest differentiation of products is climatic, and because this differentiation is largely latitudinal, in a sense does not square with existing facts, since a careful analysis of the direction of world trade currents of the present time and indeed for many centuries past reveals a preponderating east and west movement, as illustrated in the great volume of traffic crossing the North Atlantic. This

east and west predominance is probably explained by the location of the economically most advanced countries east and west of each other. At the same time there are signs of a possible tendency in the other direction and the geographic prediction is tacitly recognized in part in such purely practical things as the recent American export promotion campaign, which has so considerably developed the theory that in tropical America and Asia, that is in many of the markets of Latin America and the Far East, lie some of the greatest potentialities for the upbuilding of future American export business

All these foregoing influences of climate upon the industries and trade of nations, and therefore upon their shipping and finance, are direct ones, but the matter cannot be dismissed without consideration of certain indirect but far-reaching economic influences which do much to explain the present economic hegemony of the world. That is, there is the economic influence of climate upon man himself. It is generally conceded that economic life in the polar regions has been extremely limited due to the natural limitation of plant and animal life and to the extreme rigors of the weather which are obstacles to accomplishment and are productive of a torpor not entirely unlike that of the equator, and that economic life in the tropics in turn is limited not by a restriction of plant and animal life but by a too great ease of at least simple existence and by a physiological lassitude. The south temperate zone is not so important for special reasons, including a limitation of land area and usually a too great evenness of weather. On the other hand it is asserted in geography that the north temperate zone combines a number of climatic conditions which in their peculiar complexities are most conducive to economic activity. These include a great variability of weather which stimulates with-

out inhibiting economic progress,' and a seasonal change which in primitive times necessitated saving for winter and therefore induced the growth of the institution of capital. In the tracing of the rise and fall of early civilizations much evidence has been adduced in support of this principle, but coincidence of theory and fact is found in an analytical rather than an historical view. In any event the fact is inescapable that in the north temperate zone is now to be found the greatest concentration of advanced economic life, including intensive methods particularly in the manufacturing industries which are the cap-stone of the industrial structure and correspondingly the presence of a majority of the economically most highly developed countries of the world.

This economico-geographic conception presents one further problem of interest in this connection. Since the presentation of the Malthusian population doctrine in a theoretical way, and in a practical way at least since the beginning of the exploration and colonization period in modern history, the economic exploitation of tropical areas has been one of the most important phases of the relations of nations. This problem in turn rests basically upon the fact that the tropical areas have been least economically developed in the modern period and offer to science a large probable increase in the world's supply of sustenance and to nations like those of Europe and North America in the temperate zone large possibilities of increased acquisition of resources and import commodities. However, this process of exploitation is in some measure scientifically limited by inherent difficulties of acclimatization. The progressive countries of the north temperate zone may and do transfer their capital and equipment and even their entrepreneurs to tropical nations and with the aid of a native labor supply develop important colonial industries, as in the cases at one time or another

of sugar, tea, and rubber plantations. Yet it is frequently insisted in physiology that true acclimatization of an individual is impossible and to the extent that this is true the labor supply of the colonial industries must always remain a native one and the managers must be limited in their sojourn, so that it may be that the whole economic development of these world belts must continue indefinitely to be at least in part a process of exploitation from other nations as headquarters.

In climate, therefore, are found explanations of a variety of factors in international affairs, including the continued supremacy of the economic powers in the north temperate zone and their long distance economic domination of other regions, a domination suggested by the term "economic imperialism"—an institution of vast importance in international relations.

THE ORGANIC ENVIRONMENT

The geological and meteorological forces touched upon above, while of fundamental effect in shaping international activities, make up but one side of the total natural environment. This is the inorganic side. The other side is the organic environment, which includes all of the elements of the organic industries, as well indeed as the human factor itself, and which is in turn always conditioned by the inorganic factor. In the organic phase of the environment lies, from another viewpoint, all of the international industrial development of agricultural types. However, these interacting influences have been so fully suggested in the foregoing parts of this analysis that they need not be further elaborated. They may be dismissed with the remark that here again in viewing the geographical factor on this side are to be found a host of further explanations of international

industrial and commercial relations, of such facts as these — that the United States buys its coffee from Brazil, its tea from Japan, China, India, and Ceylon, and its rubber from Malaya and the Dutch East Indies, that among its leading exports of agricultural staples are wheat and cotton. Organic environment thus leads to innumerable cases of national specialization in production and of international dependence in essential branches of commerce.

THE GEOGRAPHIC DIFFERENTIATION OF NATIONAL ECONOMY

It is rather a truism that geographic division of labor, among the various other types such as functional division of labor, is the primary basis of international trade, even though pure economic factors pertaining to the economic superstructure which man himself has erected also play their part. This geographic division of labor otherwise known as regional specialization or as the localization of industry, has a basic yet not always fully realized rôle in the total economic differentiation of nations and together with the corollary of universality of consumption clearly does epitomize international industrial and commercial processes. It has been the purpose of this chapter to point out and emphasize this basic principle and to indicate it by some of the most pertinent illustrations which occur on an international scale. With this basic principle clearly understood the actual processes of international industrial and commercial relations, and indeed the processes of international transportation and finance, can be more fully understood, for it is the effect of these influences which is of vast, if not always of final and seldom of apparent, importance in the formation of world economy and the formulation of international economic policy.

CHAPTER II

THE SOCIAL FACTOR

INTERNATIONAL ECONOMIC ASPECTS OF THE PROBLEMS OF RACE AND POPULATION

IN CONSIDERING the influence of the geographic environment upon international economic relations, there is necessarily also implied the social factor. Out of and conditioned by the inorganic and organic environment human races and groups and therefore nations as well as individuals, probably emerged by a natural process like that which produced other organic development and involving the same phenomena of adaptation to environment and consequent differentiation. The process, from this standpoint, was largely economic, for national like individual struggle for existence is primarily economic. Consequently the economic differentiation of nations and the resulting international relations, are both geographic and racial, and from the latter arise the questions of racial economic capacity and of the economic aspects of the problem of population. Reference to the pertinent phases of these problems will be of value in visioning the fundamentals of world economy.

RACIAL ECONOMIC EFFICIENCY

That various races have had differing economic ability, just as they have possessed varying characteristics of other sorts,

seem highly probable. Nor may there be any exact correspondence between their economic and other characteristics. Thus, at least in a given period in history, a race may either accomplish much or possess an accumulation of accomplishments in what might be called the intangibles of civilization, as in art, or philosophy, while at the same time it may lack a higher degree of economic efficiency. In general, however, it may be contended that no race can attain a high civilization of any sort without a more or less substantial material basis, and that when there is a discrepancy between these two phases of development, with high "intangible" attainment, and economic impotence, an industrial background was laid in an earlier period. At present China is generally thought of as a country of economic chaos, comparative economic stagnation, and consequently of political instability, while it is equally recognized that the Chinese race has played an extremely important part in the historic development of civilization; but China's earlier attainments included economic ones, and it is therefore possible to view her present difficulties as temporary.

Whatever may be the relation of material and immaterial civilization, the variation of racial economic capacity may quickly be observed by an actual comparison of nations. That the races inhabiting the United States, Great Britain, Germany, France, and Japan, to mention only a few outstanding examples, must possess such capacity, in a large measure may be assumed from their place in the family of economic powers, for the mere coincidence of such things as resources and trade facilities, however fundamental, is insufficient to explain their supremacy in the world's production, trade, shipping, and finance, and their leadership, whether always ethical or not, in the development of other regions. Unfortunately, this racial economic capacity must

be viewed only in the large, that is, qualitatively, rather than quantitatively, for there would appear to be no scientific method for its exact measurement. If absolutely accurate and comparable data were available for different countries, it might seem possible to take estimates of total national resources, total annual average production, and total population and from these compute a kind of index of individual productivity in the different countries and by application of this index to known racial composition to estimate the racial capacity. There are of course a number of estimates of national wealth as well as of national income for countries such as the United States, but the estimates of national wealth either are extremely rough and vague for potential resources or omit them entirely, and present almost innumerable other difficulties of computation.¹ Further difficulties in such an attempt to compile an index would include the very mixed character of various populations and the inestimable intermixture of other factors than mere volume of physical production, such as attainments in finance and transportation in the composite national business success. An attempt has been made, based on a comparatively simple method.² This takes a number of islands of varying types and lists for a given year their approximate exports per person in dollars and their estimated relative volume of possible products per square mile. Assuming an approximate accuracy of the figures the contrasts are very considerable. In the period adopted New Guinea had approximately five dollars worth of exports per person as against twelve dollars worth of possible products per square mile, whereas Hawaii had a ratio of four hundred to ten and New Zealand a ratio of two hundred to five, presumably indicating the

¹ *Vide infra*, chapter on *The National Economy of the United States*.

² Huntington, E., and Williams, F. B., *op cit*, Chapter V.

important commercial activity of the people in charge of business affairs in the latter two countries. The inadequacy of this method, however, is apparent, for, aside from any question of the feasibility of estimating the value of possible products per square mile, it is quite clear that the export trade of a region is a very incomplete index to the character or even to the volume of its business. This can be illustrated by reference to either the United Kingdom or the United States. The former finds a remarkably large part of its economic life involved in its foreign trade, and its total economic success may in one sense be judged accordingly. On the other hand, the United States is known to have an unusually great volume of business, having a total material product substantially above that of any other country and apparently relatively high in proportion to its population. But it is also true, however vital its imports and exports may be in its economic prosperity, that the foreign business of the United States is a relatively small part, perhaps normally five to fifteen or not over twenty per cent of its total national business. Its foreign trade is far from an index to the economic activity of its population, and indeed is to a certain extent in inverse ratio to the latter when viewed in proportion to average income per person. A highly developed country like the United States, therefore, may have a tremendous volume of business and a probably correspondingly high racial economic capacity and yet may not evidence this capacity in its external activity.

It is practically impossible to conceive of an index which would be sufficiently accurate to produce a single mathematical ratio of racial economic success, due to the heterogeneity of elements in such success, and it is almost equally difficult to discover sufficiently complete and comparable statistics for various countries to which such a ratio could

be applied, aside from the insuperable difficulty presented by racial intermingling in practically every country. As the modern process of improvement of collection and computation of economic statistics goes on, however, it is not without interest roughly to compare the various data for different countries to be found in various compilations.³ Such a comparison tends to afford definite qualitative, though not accurately quantitative, conclusions.

A further point is suggested in any speculative consideration of this sort. This is the question of the relative importance of the human factor and the geographic factor, which is somewhat analagous to the problem in other branches of thought of heredity versus environment. If a strictly deterministic or mechanistic view is adopted, the question is raised whether the total national economy of any given country is not entirely the product of its geographic setting, whether the recognized economic success of an economically highly developed nation would not have been equally attained if that nation had been peopled by an entirely different race, since any race would have reacted similarly to the geographic conditions, the economic opportunities, existing there. The answer to such a question is as much conditioned by the point of view here as in the realms of biology and psychology. There can be no doubt of the vast, and not always fully realized, determining influence of geographic environment upon the economic destiny of nations, as briefly suggested in the foregoing chapter.

³ E.g., cf. U. S. Department of Commerce, *Statistical Abstract of the United States*, annual, especially tables on "Commercial and Other Statistics of the Principal Countries of the World" (e.g. 1923 edition, pp. 850 *et seq.*), *Statesman's Yearbook*, sections on economic statistics for various countries, U. S. Department of Commerce, *Commerce Yearbook*, part on "Foreign Countries."

N.B. — For further references and data, *vide* Appendix, present volume, *infra*.

Doubtless the various nations are racially what they are, in an economic way as in other ways, in large measure because of the environment, if considered in long-time perspective. More immediately viewed, however, the differing racial characteristics must be conceded an important place in the explanation of given national economic development, and this is particularly borne out by the fact that certain nations have utilized inferior economic opportunities for high economic development, while others, with superior resources and other advantages, even climatic, have not so developed. To say that they have been stimulated by necessity begs the question, for again in other cases comparative absence of economic advantages has not similarly stimulated. To support the thesis that economic success is not to be explained exclusively in terms of geographic factors, it is probably only necessary to refer to several of the nations counted as economic powers of the present time and to observe that with many limitations in natural resources and other economic disadvantages they have rendered many other parts of the world economically tributary to them. Reference may be added, by contrast, to other nations which are very similarly placed but which have remained in a minor economic category.

The attempt at a measurement of this factor, cited above, includes the following remarks: "The part played by a country in business depends upon the character of the people far more than on their number or their natural resources. India has about forty times as many inhabitants as Canada and the natural resources especially those depending on plants are probably greater but India's foreign commerce is only about one and one-half times that of Canada. In other words, in this respect one person in Canada is nearly thirty times as important as one in India.

In industrial business . . . the ratio is probably about the same. Cyprus falls much below what might be expected in view of its agricultural possibilities and its position near Europe, Africa, and Asia. Its people are inefficient." While any quantitative comparison of this sort is far from accurate, it suggests the application of a principle which is doubtless of much significance in the economic position of nations.

ECONOMIC ASPECTS OF MIGRATION

Any consideration of the problem of the effect of the human and social factor upon economic affairs particularly in their international phases, necessarily includes the economic aspects of movements of population. Migration is a phenomenon with biological, social, and political implications and most broadly considered is a problem of general sociology, but its economic aspect is generally conceded a degree of importance which necessitates its consideration in a complete view of the background of international economic relations. The types of movement of population have been classified as invasion, conquest, colonization, and immigration.⁴ These obviously may differ widely in both their causes and their effects. Invasion and conquest are best illustrated in the earlier periods of Occidental history. True colonization frequently if not usually is a movement of economically successful people toward a region of reasonably similar geographic conditions but populated by less energetic types, and in the strict sense is a group movement,

⁴ For a general treatment of migration, esp. immigration, cf. Fairchild, Harry P., *Immigration*, N. Y., 1913; Ross, E. A., *The Old World in the New*, (sociological) N. Y., 1914. For a brief statement, vide U. S. Tariff Commission, *Dictionary of Tariff Information*, 1924, art. on Emigration and Immigration, pp. 299-301. N. B. Vide also Appendix, present volume.

often fostered or effected artificially by governments. It is well illustrated in some of the first settlements of North America, in the so-called colonial period. On the other hand, "immigration" may be an inflow of either more or less successful types into a country of advanced civilization though less developed resources. The positive and negative causes of migration comprise political, social, and religious influences, but are generally admitted to be largely economic. They include temporary natural calamities, such as drought, famine and flood, and under-development of the industrial arts, and recent collections of data indicate a relation to business cycles. The most common basic cause is a general limitation of economic opportunity in the country of origin resulting fundamentally from a disparity in ratio between population and resources. The possible effects are many and in case of non-assimilation and of so-called undesirable types may even include subversion of government and increase in pauperism and crime. Yet here again the economic aspect is important and involves questions of labor supply, standards of living, and even an influence upon the international balance of payments through "immigrant remittances."

Immigration in the narrower sense above implied, is usually considered as involving two advanced countries of more or less similar culture, one older and more densely populated, the other newer and possessing greater individual economic opportunity, for this movement more than the other types, is largely an individual one. Further, it is the most distinctively peace-time type of population movement. Emigration from Europe and immigration into the United States comprise the most significant population movement in recent times. Similarly, the most important present-day governmental policy for immigration restriction is that of

the United States, definitely established in 1921. Another example is that of the so-called "White Australia" policy. On the other hand, policies of encouraging emigration are found in the case of Japan and, latterly, Great Britain, as illustrated in the British Empire Settlement Act — if migration from one part of an empire to another be considered true emigration, as it probably may be. Italy has also recently developed an emigration policy, although in its latest form this tends somewhat more toward a colonization policy.

It has been asserted that international migration and international trade are the principal methods by which international economic equilibrium is sought, and therefore that protective tariffs which restrict trade and legislation restricting immigration are the two chief devices by which international economic equilibrium is checked and economic nationalism is preserved and promoted.⁵ There is much validity in this concept, for it can scarcely be doubted that movements of population have a tendency toward leveling labor supply and labor conditions and rates, even though it is somewhat difficult to measure this effect, and also difficult to determine the extent to which immigrants are economically assimilated and the effect of the flow correspondingly neutralized, there must, however, be ultimate limits to this neutralization, for regardless of other factors such as larger use of capital, a country could not indefinitely receive large additions to its population without its labor supply being affected. Up to a certain point influx of population into a country of relatively low population density and high living standards may not result in a fully corresponding reduction of wage levels and working conditions, if the immigrants.

⁵ For a discussion from this viewpoint, *vide* Grunzel, Josef, *Economic Protectionism*, N. Y., 1916, esp. pp. 100-121.

become adapted to the new conditions and contribute to a régime of continued progress in industrial invention and of use of capital goods in the form of labor-saving devices — for to a considerable extent in the process of production one production factor, such as land (which is limited unless the advance of applied science indicates a potentially unlimited supply of natural resources) or capital (the increase of which is less limited) may be substituted for another, such as labor. To a certain extent it is true that an economic assimilation of this sort, for example, has taken place in the United States. Nevertheless large and continuously unchecked migrations must have somewhat of the leveling effect mentioned.

This applies most noticeably to the country of immigration, and in recent times has been most discussed in that connection. But it has a possible bearing also on the country of emigration. Abstractly it would be supposed that the effect in such a country would be the reverse of that in the country of immigration, and a crowded population has been used by governments both as an excuse for acquisition of colonial territory which would serve as a so-called outlet and as a basis for a policy of encouraging emigration not only to colonies but to the home territories of other nations. The colonies-for-outlets argument has been cited, if not by the governments themselves at least by publicists, in the case of a number of colonial powers, but it is perhaps most familiar in the case of Japan and her acquisition of territory from China. Again, although the British Dominions have already received considerable numbers of English persons, in the recent consideration of the post-war unemployment problem in the United Kingdom (as at the Inter-Imperial Conference) and in the Empire Settlement Act, further steps have been taken to promote greater migration from the

mother-country to such countries as Australia and New Zealand. In still another case the premier of Italy has spoken of crowded conditions in that country and has tended to evolve a policy of encouraging emigration, or of group colonization. However, while it would be difficult to compute statistics to disclose it, it would appear, while immigration has doubtless had important effects, that emigration scarcely has had any appreciable result in the way of relieving economic conditions at the point of outflow. Presumably natural expansion soon offsets the outflow. Emigration has been extremely limited in the case of colonies of sharply different climatic and other geographic conditions, and even where these conditions are substantially similar it has not attained the proportions that might have been expected, the truth being that colonies in recent times have been relatively little utilized as population outlets and much more employed as sources of raw material, markets for home products, and fields for the extension of enterprise. Thus while immigration has probably had considerable effect in some cases, emigration in recent times has seldom seemed to assume such proportions as to have the supposedly desirable result, although it is impossible to say how much greater the congestion problems might have been without it.

Everything considered, and with appropriate limitations, it may be asserted that migration does tend to some labor-leveling effect, if it is sufficiently voluminous, as in the case of the concentration of the flow for some decades toward the United States, and to the extent it has not been offset by other factors. But in examining the processes which tend to equalize economic conditions throughout the various countries, it is a mistake to emphasize one factor in production at the expense of the others. It is true that land, in

the narrower sense, cannot be 'moved, but land in the economic sense is less rigid than is sometimes supposed, at least it is true that there is in modern times a growing scientific and economic facility for foreign exploitation of natural resources and for, not transplanting but transporting, raw materials. And one of the most significant international economic developments in the present era is the greatly increasing extension of capital and enterprise from one country to another. While much has been said of the mobility of labor and its international application, there is also such fluidity of capital and enterprise to be taken into account, and this fluidity is in evidence in increasingly large proportions on an international scale. It may be argued, of course, that these factors are not so distinctive as labor, that given units of them do not so much retain their original distinguishing characteristics, yet at least entrepreneurs have distinctive qualities. In any event, the growing international flow of these factors, especially assuming a certain degree of interchangeability of the factors of production, suggests that migration is at least not the only process which if unchecked tends to break down the economic barriers between nations and to bring about international economic equilibrium. It may even be questioned whether the natural obstacles to the flow of populations are not greater than those in the latter case, whether for example the hesitancy of an individual laborer in making a decided change in his abode is not in general greater than the hesitancy of the capitalist because of unfamiliarity or risk in making foreign investments or even of the entrepreneur in sojourning in a distant land. It may well be in the future, if it is not already true, that migration will be of much less economic importance than international extension of enterprise.

IMMIGRATION IN THE UNITED STATES

Immigration is best illustrated in modern times by the steady influx of European peoples into the United States until the recent passage of restrictive legislation, and the American immigration phenomenon may be briefly examined here ⁶

Since the United States is a comparatively new country it is obvious that immigration has played an especially important part in its development and its total national life. In a sense nearly its entire population is either immigrant or of immigrant descent, although the movement of the earliest period may be termed colonization. For approximately a century the tide of immigration into this country has, with temporary interruptions like that of the Civil War, flowed inward in a more or less steadily increasing volume. It reached its peak in 1914 with the incoming of over 1,200,000 persons who constituted 12.2 per cent of the slightly more than 110,000,000 population of the date ⁷. The World War necessarily checked the increase, but it was evident that there impended at the close of the War a further increasing

⁶ For statistical and other data, *vide Annual Reports of U S Commissioner General of Immigration, U S Industrial Commission, Report on Immigration*, Vol. 15, 1901, *U S Immigration Commission Reports*, 41 Vols., 1910, esp. Vol. 5 — *Dictionary of Races or Peoples*, Vol. 19 — *Summary Report on Immigrants in Manufacturing and Mining Industries*, Vol. 1 — *Abstract of Reports of Commission with Conclusions and Recommendations*, and Vol. 2 — *Abstract continued*, U S Department of Commerce, "One Hundred Years of American Immigration" (summary statistics) in *Commerce Reports*, October 29, 1919, "The Immigration Question," in *Commerce Monthly*, November, 1922.

For general discussions, *cf.* Commons, John R., *Races and Immigrants in America*, N. Y., 1907, David, Philip, *Immigration and Americanization* (Selected Readings), Boston, 1920, Jenks, J. W., Lauck, T. J., and Smith, R. D., *The Immigration Problem*, N. Y., 1922. Also, Steiner, Edward A., *On the Trail of the Immigrant*, N. Y., 1906, Warne, Frank J., *The Immigrant Invasion*, N. Y., 1913. NB. *Vide* also Appendix, *infra*.

⁷ Figures and percentages in this section from *Commerce Monthly*, *op. cit.*

influx. Previously laws had been enacted effecting some qualitative restrictions along the lines of health, character, and literacy, but these had had no appreciable result in the volume of the movement. Following the war, various arguments, political, social, and economic, for and against immigration restrictions, finally resulted in the so-called "Three Per Cent" Law of 1921, a quantitative restriction measure more or less drastic in effect. The evolution of national attitude which finally resulted in this measure is interesting.

In the very beginning of the nation's history immigration was not only greatly needed for the development of the country⁸ but highly favored, alike by the comparative political and religious freedom and by an abundance of economic opportunity so great that for decades it remained a byword. After several generations this contributed to a considerably greater density of population. Persons per square mile increased from 6.1 in 1800 to 25.6 in 1910. But this population density still remained much less than that of most of the European countries⁹ and reference to the abundance of natural resources in the United States continued to be a commonplace.

However, American national economy was gradually changing from the frontier type to a more mature kind that may be called an "industrialized" one,¹⁰ which involved a noticeable limitation of certain resources, a taking up of unoccupied lands, an increasing relative importance of manufacturing as compared with agriculture and extractive industries such as mining and lumbering, an increasing supply

⁸ It may be recalled that Alexander Hamilton in his famous Report on Manufactures listed the encouragement of immigration as "one of a number of desirable objects to be attained by industrial development by means of tariff protection."

⁹ Cf. *Statesman's Yearbook*, various countries.

¹⁰ For an account and analysis of this evolution, *vide infra*, chapter on "The National Economy of the United States."

of labor, a growing class consciousness on the part of labor particularly as expressed in the labor organization movement, and many other changes which tend to make American economic conditions less extremely unlike those of Europe. In short, on the basis of application of an overflow of European population to the tremendous resources of this new hemisphere country, and of certain distinctive factors such as American inventiveness and progressiveness, the Industrial Revolution, at first slightly delayed, was rapidly running its course in this new world, even though with certain native characteristics.

This fundamental evolution had its gradual but inevitable effect upon national policy and national sentiment. By the beginning of the twentieth century a growing interest in the so-called immigration problem in its various aspects was apparent. An increasing nationalism led to arguments in favor of immigration restriction upon social and political grounds, it began to be asserted that there was danger of dilution and contamination of national culture.¹¹ and of subversive political movements on the part of foreign population elements which had not or could not be assimilated. Aside from these general arguments, there was a crystallization of the immigration question along economic lines. While some employers, though by no means all, tended to favor non-restriction in order to insure a continued supply of labor, especially of the unskilled type, labor organizations generally came vigorously to advocate restriction¹² on the grounds of the menace of competition of cheap European labor and an ultimately resulting reduction in American wages.¹³ Of more

¹¹ One literary critic has attributed the supposed vulgarity of current literature to this cause.

¹² Certain of the unions of highly skilled workers did not fear unskilled competition and did not feel the necessity of taking this stand.

¹³ The United States Immigration Commission was organized in 1907.

basic importance than this, was the increasingly thoughtful analysis of all phases of national economic conditions, upon the basis of which came advocacy of restriction because of the general possibility of a reduction in standard of living, not so much directly as a result of competition of low-standard individuals in a given industry or section, but more indirectly through the ultimate reduction of resources and increase of the population-resource ratio.

This crystallization of the immigration question was accelerated by a change in the racial type of immigrants being received. Roughly, the change was a shift from northwestern Europe to southeastern and eastern Europe, as the principal source of these additions to the population of the United States. The shift probably has been somewhat exaggerated at times, but its occurrence is demonstrated in the fact that people from northwestern Europe made up 12.5 per cent of the foreign born population in 1870 and only 7.3 per cent in 1910, whereas people from southeastern and eastern Europe composed only 0.3 per cent of the foreign born population in the former year and as much as 5.5 per cent in the latter year. This phenomenon was cited by the advocates of restriction to show not only that the immigrants were coming in greater numbers but that they were of an increasingly

and several years later, after exhaustive investigations, rendered its many-volume report. Its findings (*vide esp* Vol. 1, *op cit*) favored immigration restriction for economic reasons, and contained, in brief, the following conclusions: (1) The chief causes of the emigration have been economic. (2) The character of American immigration has been changing, more of the immigrants coming from southeastern Europe. (3) The entrance into American industry of large numbers of the new type of immigrants has tended to expose American workmen to unsafe and insanitary working conditions, introduce lower standards of living, displace native or older-type immigrant labor in certain occupations and industries, weaken labor organizations, prevent increases in wages in certain instances. (4) Improvements in conditions and increases in wages have been accomplished in spite of this immigration, rather than because of it.

undesirable type The argument that such racial groups are actually undesirable is extremely difficult to prove with any scientific accuracy, and recent sociological and medical investigations along the lines of pauperism and other indigency, crime, disease, and political radicalism have given rather mixed results when a racial classification was adopted But this does not prevent the formation of general opinion and sentiment, and a swinging away from the conception of the United States as the world's "melting pot," to a conviction that too great racial intermixture cannot be successfully accomplished, in spite of a virility thought to result from a moderate combination of different stocks All of these social and political aspects of the immigration problem are simply alluded to here, as phases which have been so important in their bearing on the crystallization of national policy that their part in it must always be recognized

Of greater significance from the present viewpoint is the question whether certain racial types have been economically more or less desirable, yet here again satisfactory data is scarcely available for any scientific estimate This again is like the immeasurable problem of racial economic capacity Standards of living, however, may be fairly well estimated In the truest sense a standard of living probably implies a greater or less abundance and variety of consumption of goods and services, which cannot be measured exactly Per capita income is doubtless the best single index, this too has to be estimated rather than compiled as a direct census record, but existing estimates are doubtless fairly accurate and they necessarily furnish a key to living standards, if when used in a comparative way due allowance be made for differentials in the buying power of different currencies Despite its trend toward industrialization, the United States, partly by means of its increasing development of natural re-

sources, has maintained the highest per capita income of any country in the world, in July, 1919, it was \$335, as against \$263 for Australia, \$243 for the United Kingdom, \$185 for France, \$146 for Germany, \$112 for Italy, \$102 for Austria and Hungary, and \$29 for Japan. This necessarily implies a lower average standard of living for persons coming from any other country to the United States, and one much lower from *some* countries. But how easily these immigrants can be assimilated in an economic way, for example how quickly they raise their standards of living, is another question, which depends upon inherent qualities impossible of exact calculation. Interesting attempts are now being made to compile data which will make possible definite conclusions concerning the exact economic causes and effects of migration, but such analyses as yet have not been developed sufficiently to afford a final quantitative answer to the question.¹⁴

These arguments, however, made with increased vigor in the first two decades of the twentieth century, led to immigration restriction. Before 1900 there were laws concerning importation of contract labor and other less important matters, and restriction of immigration from certain Ofi-

¹⁴ Cf. ff. publications of the National Industrial Conference Board, N. Y. *The Immigration Problem*, Research Report No. 58, May, 1923, *Proceedings of the National Immigration Conference*, N. Y., December, 1923, Special Report No. 26, February, 1924, *Social Adequacy of Foreign Nationals in the United States — A Critical Review of "Analysis of America's Modern Melting Pot,"* Special Report No. 28, May, 1924. In *Migration and Business Cycles* (by Harry Jerome, with foreword by Wesley C. Mitchell), the Board shows "a close relation between the cyclical oscillations of employment and those of immigration and emigration, and a moderately close resemblance in the respective seasonal fluctuations, with considerable reason to believe that this similarity, particularly in the cyclical oscillations, is due to a sensitiveness of migration to employment conditions," with indications that this response may have certain disadvantages, as for example in contributing to inflation and lessening the "pressure for regularization of industry." *Vide* also Appendix, *infra*.

ental countries was effected by special agreements and laws. Subsequently there were legislative attempts at both qualitative and quantitative reduction and in 1917 a law was passed which set up a rather mild literacy test. Finally in 1921 there was enacted the "three per cent law."¹⁵ The quantitative restriction of this measure and its attempt to obtain a higher proportion of the former racial types, that is, the so-called "desirable types," is illustrated by its limitation for any fiscal year, of the number of immigrants of any nationality to *three per cent* of the number of foreign-born persons of that nationality present in the United States in 1910, (*i.e.* as determined by the United States census of 1910), with certain exceptions for neighboring countries in the western hemisphere.¹⁶ A law of 1924¹⁷ narrowed the

¹⁵ *An Act to Limit the Immigration of Aliens Into the United States*, H R 4075, 67th Congress, Public No 5, approved May 19, 1921, esp Sec 2-a

¹⁶ For a list of quotas for the various nationalities for 1926-27, *vide* U S Dept of State, *Statement Showing Status of Immigration Quotas for the Fiscal Year Ending June 30, 1927, In Those Countries From Which Reports Have Been Received*, February 19, 1927, statement shows total quota, number of quota immigrant visas granted (preference and non-preference) and balance on indicated date. Exceptions to the percentage reckoning (Sec 2-a) included (1) government officials, etc., (2) aliens in continuous transit through the United States, (3) aliens admitted who later go in transit to another country, (4) aliens visiting as tourists or on business, (5) "aliens from countries immigration from which is regulated in accordance with treaties or agreements relating solely to immigration", (6) "aliens from the so-called Asiatic barred zone", (7) "aliens who have resided continuously for at least one year immediately preceding the time of their admission to the United States in the Dominion of Canada, Newfoundland, the Republic of Cuba, the Republic of Mexico, countries of Central or South America, or adjacent islands", (8) aliens under 18 years of age who are children of United States citizens. With the exception of "American neighbors," it is seen that these variations are relatively minor.

The Act also provided that nationality should be determined by country of birth.

¹⁷ *An Act to Limit the Immigration of Aliens Into the United States, And for Other Purposes*, H R 7995, 68th Congress, Public No 139, known as the "Immigration Act of 1924," approved May 26, 1924. The quota

restriction to *two per cent* of the number of foreign-born individuals of the respective nationalities, as determined by the census of 1890. It shifted the basis of computing the ratio, the previous basis had been the actual number of foreign-born of the various nationalities, while the new scheme, known as the "national origin" plan, provided that after June 30, 1927, the world was to be divided into geographical areas and admissions were to be based on the number of inhabitants of the United States in 1920 whose birth or ancestry was traceable to such areas¹⁸. But the immigration policy of the United States is still the subject of much debate and is generally regarded as being in a state of transition. And in these considerations the economic aspect of the question is more and more emphasized. "It has been a popular belief that much emigration from Europe to America has been inspired by a desire to escape persecution, religious and political. This may have been true in the main with respect to the earliest colonists. But the economic motive has always been an important one and is increasingly so today."

Thus the traditionally economic character of migration; the fact that it results to a large extent from population pressure in countries of relatively low-resource-per-person ratio and to a large extent leads to an overflow toward areas of relatively higher resource-person ratio, is reemphasized in the most important migratory movement of modern history

provision (Sec 11-a) was, "two per centum of the number of foreign-born individuals of such nationality resident in continental United States as determined by the United States Census of 1890." But the ratio provision (Sec 11-b) was annual quota of any nationality to be "a number which bears the same ratio to 150,000 as the number of inhabitants in continental United States in 1920 having that national origin bears to the number of inhabitants in continental United States in 1920."

¹⁸ This plan, it has been asserted, is unworkable and should be changed. Certainly foreign ancestry is more difficult to trace, for administrative purposes, than foreign birth.

Further; such a pressure may tend to be exerted inwardly and result in necessary economic and sociological readjustments if the areas of low pressure with sufficiently similar climatic and other basic conditions are inaccessible either, by national restriction or by an ultimate process of equalization of pressure. It may be contended with considerable plausibility that, in the illustrative case of the United States, there must ultimately be either non-restriction with a continuation of the process until the resource-per-person ratio and the standard of living of the country of immigration is reduced to a level approximately like that of emigration countries, or restriction. Many special factors, such as greater individual inventiveness and efficiency and larger use of capital in such forms as machinery, in proportion to labor and even to land, in the country of immigration, might greatly delay the ultimate completion of such a non-restriction process, postponing it for generations or longer. But when there is increasing realization in the immigration region that that country is showing unmistakable evidence of the evolution in its economic structure which is apparent in the economic history of the United States, it is extremely likely that restriction is or will become a fixed policy for the next period in that history, without regard to the arguments of sentiments or generality for or against it.

Economic idealism, based upon beliefs in equality of economic opportunity or upon the more cosmic concept of world unity with free interflow of people as well as of goods, may offer non-restriction arguments. Indeed in the immeasurably distant future such a unity may be accomplished, and that through the very compelling but tremendously tedious urge of the basic processes which are the subject of this study. But for considerable periods to come, and so long as the world is divided into units of such considerably competitive

character as at present, immigration is likely not only to be influenced by varying national economic conditions but to be both a subject of national legislation and a source of some difficulty in the relations of nations. The very tendency toward an equalization of such varying conditions, however much it may be wisely retarded by a reasonable degree of economic nationalism from effecting too violent adjustments, gives further glimpse of the natural forces working toward the leveling of the compartments of international economy. On the other hand, it would doubtless be entirely fallacious to suppose that the migratory movements of populations, if unrestricted, would spread out equally and universally among the nations. Indeed, the large currents of migration of recent history have been largely confined to a few main channels. This is for the simple reason that basic conditions do vary widely throughout the different countries, and that the races themselves are sharply differentiated. For example, even if there were no restriction whatever, and despite the fact of lesser density and greater economic opportunity, a very large flow of population from certain non-European countries to the United States would be highly unlikely, the existence of the African element in this country is largely due to the special system of "importation" of slaves in a certain period. There are natural limits to migratory movements. Regional specialization, then, extends not only to types of resources and products, but as well to races and racial conditions, and the differentiation of national economies is as natural upon this basis as upon others.

RESOURCES AND POPULATION

No consideration of the factor of population in world economy would be complete without mention of the broad and much-mooted question of the relation of resource-supplies

and population expansion, already touched upon in the immediately preceding paragraphs. The more general phases of this question are not directly among the objects of this study, but they have implications in international economic relations which claim attention.

Modern speculation along these lines practically dates from the first exposition of the now famous Malthusian doctrine,¹⁹ which may be roughly summarized by saying that population tends to increase more rapidly than means of subsistence, the contrast being one of a geometric ratio and an arithmetic ratio, with the result that there must be either corresponding natural checks or various kinds of artificial checks on population expansion—a doctrine not entirely unrelated to the Darwinian theory of struggle for existence and survival of the fittest, and perhaps not without some connection with economic theories such as the wage-fund doctrine and the “iron-law of wages.” Subsequent controversy has involved both support of and attack upon the Malthusian concept. Arguments advanced have included the idea that individual conflict has been replaced by cooperation within groups, that the growth of functional division of labor within the group brings this about, that as civilization advances these groups expand and become nations, that the groups or nations rather than the individuals, become the competing units, and, applying the reasoning to national affairs, that the pressure is toward nationalistic commercial policies. There is much logic in this reasoning, although individual competition has by no means disappeared. It may also be contended that the steady growth of international division of labor, functional and especially (by its very nature) territorial, offers increasing opportunity for the

¹⁹ Malthus, Thos. R., *Essay on the Principles of Population as It Affects the Future Improvement of Society*, London, 1798.

cooperative group to become, not national, but world-wide, that is, for world economy to emerge. A careful examination of the world economic structure, as it evolves, more and more affords conviction that this is largely, though not yet completely, true; later chapters in the present study point in this direction. Nor is it necessary to show sameness of the parts of world economy to prove this; rather does the economic structure of the world essentially depend upon the very differentiation of its component local economies for its degree of coherence and unity.

But such reasoning, though most fundamental for present purposes, leads away, somewhat, from the initial question as to whether the supplies of commodities available permit or check expansion of population. This problem has been approached by a number of modern writers, through various avenues.²⁰ Such approaches deal somewhat with the human or sociological phase of the matter, but, in keeping with the trend toward objective, material analysis, tend to stress the sustenance phase, that is, they consist a good deal of surveys of the possibilities of increase of supplies of materials. Such inquiries center around two main possibilities: (1) the development of the mineral and organic resources of areas of the world now little used or practically unused, and (2) the further advance of applied science.

²⁰ For general discussion, cf. Isaacson, Edward, *The Malthusian Limit*, London, 1912, Rageot, Gaston, *La Nationalité, Les Lois Economique et Psychologique*, Paris, 1918, Carr-Saunders, A. M., *The Population Problem*, Oxford, 1922, Cox, Harold, *The Problem of Population*, London, 1922, Reuter, E. B., *Population Problem*, Philadelphia, 1923, Wright, Harold, *Population*, N. Y., 1923, East, Edward M., *Mankind at the Cross-Roads*, N. Y., 1924. For works containing estimates and comparisons of population and rate of increase for various principal countries at various dates, vide Most, Otto, *Bevölkerungswissenschaft*, Berlin, 1913, esp. pp. 39, 60, Newsholme, Arthur, *The Declining Birth Rate*, N. Y., 1911. For a brief statement, with statistics, vide U. S. Tariff Commission *op cit*, p. 574. N. B. Vide also Appendix, *infra*.

The former has to do with such regions as Siberia and, especially, the tropics. The extensive tropical regions of the world, it is argued, contain tremendous areas of fertile soil and vast opportunities for the expansion of forestry and agriculture, on the other hand it is contended that the potentialities of such areas have been exaggerated, that such soils have been leached by excessive heat and rain, and that climatic conditions, by heat and disease, impede economic activity, especially on the part of the enterprising peoples of the temperate zone. The argument in favor of solution of the problem in the laboratory points to the steam-engine, electricity, and other major and thousands of detailed inventions and improvements in industrial mechanics and chemistry which have appeared in an increasing number since the beginning of the Industrial Revolution, stresses the new synthetic method of production, and, referring to transmutation of matter and the electronic thesis that matter is merely a form of energy, indicates the problem as one of energy-supply, with even possibilities of photosynthesis from the sun's rays and perhaps of capturing the energy in the ocean-tides, such an argument reaches its climax in the supposition that in a single atom is a staggering amount of energy, which only needs release and utilization ²¹ Opinion, how-

²¹ A recent article on the possibilities of artificial utilization of solar energy, from the pen of a chemist rather than an economist, after giving a "revenue and expenditure account for a leaf," reads, in part, as follows: "It is thus evident that the production of food by agriculture is, in a physical sense, inefficient — It is by no means hopeless for the chemist to expect ultimately to develop processes for the storage of solar radiation that will be far more efficient than the net result of agriculture."

With such stores of energy available, the chemist can produce the primary food materials even without resort to coal, oil, and water power. It will not be necessary to supplant agriculture, but rather to supplement it, by relieving it of the burden of producing all the world's food calories, perhaps leaving to it the task of producing the foods that give color and flavor and tickle our fancy and our palates. What is most probable is that practical application will wait on economic necessity. The

ever, divides, and less optimistic estimates predict or endorse natural or artificial control of increase of population. While some of these attempted analyses and forecasts are made by chemists and engineers, too many of them are indulged in by those who are not directly familiar with the sciences concerned, however much such speculations may bear on studies of national economic and political affairs, so far as technological methods of dealing with resources are concerned, they are scarcely to be made in the first instance by economics and political science, which in these matters are dependent upon such fields as industrial chemistry and engineering.

Reverting to the more purely economic aspects of the problem, especially those aspects of international importance, consideration returns to questions similar to those touched upon in treating of emigration and immigration. It is generally asserted that a certain density of population is necessary for appreciable economic development of a nation. But, it is argued, if the density is too great it exerts a pressure on resources and results in a lowering of the standard of living, and it is sometimes further contended that disparity between different countries in this respect causes a struggle, in the form of industrial competition, between low standard and high standard countries. As a matter of fact there are natural limits to such a process. In the first place, as remarked above, it is possible for an increased use of capital and a steady advance in industrial science at least partly to offset the pressure upon the standard of living; this

solution of the world's food and fuel problem will be the same. When it is achieved, a more profound social revolution must follow than followed the invention of the steam engine, for the importance of land and agriculture will diminish, and it will remove to a far more distant horizon the bounds that now tend to limit the growth of population." — Alsberg, Carl L., "Progress in Chemistry and the Theory of Population," in *Industrial and Engineering Chemistry*, Vol. 16, No. 5, p. 524, May, 1924.

has been largely true thus far in the economic evolution of the United States, though how long the offsetting process can continue is open to question. In the second place, considering the same principle in its application to international competition, it should be borne in mind that this same relief of the pressure may not only check a lowering standard of consumption, but, specifically, may result in correspondingly greater efficiency in production, both directly by means of substitution of capital for labor and indirectly by means of a greater labor efficiency resulting from a higher standard of living. This is fairly measurable in given instances. For example, if it be assumed that the sparseness of population and the wage-level and standard of living in a European coal-producing country are approximately half as great as in the United States, it may also be possible to discover a coal output per mine laborer twice as great in the latter country, presumably due (aside from such factors as relative depth of mines) to greater labor-saving devices employed in American mines and to greater capacity of the American laborer because of the physiological and psychological effects of his higher standard of living. In such a case, therefore, the monetary costs of production may prove to be approximately equal, with any differential advantage in world marketing due to some other factor such as transportation charges, and without any necessarily disastrous competition of the industry in the country of denser population against the industry in the country of less dense population. All the factors in production need constantly to be borne in mind. In a word, money wages are not necessarily in proportion to labor cost (in money), and labor costs are not the only costs in production, and these considerations must be taken into account in treating of the effect of population density upon international industrial competition.

Simple as such a principle may seem, too often analyses of this and similar problems in international economic relations are undertaken without allowing for all the factors concerned. This particular point is partly illustrated in the assertions regarding national tariff policies, that protective tariffs are desirable in order to protect cheap labor against competition from high-priced foreign labor and are also desirable in order to protect high-wage labor against competition from cheap foreign labor. On the other hand, it can scarcely be doubted that if the process is not offset by the other factors just discussed, industries of low standard countries do tend to set up difficult competition against those of high wages, actual examples may be found in recent instances in international trade. As is so often true in the entire international economic process, abstract tenets cannot be laid down too generally, examination of each given case is necessary — more and more quantitative analysis is needed in this field — a principle may be valid but may have to be considered along with other principles also operating.

Most important from the present viewpoint is the fact that differing population conditions in various countries contribute greatly to industrial specialization, to the differentiation of national economies, which is the primary reason for international commerce. In the first place it is doubtless true, regardless of any question of varying degrees of economic efficiency of different races, that the people of different nations have distinctive economic proclivities which are expressed in diversity of products, as in the case of the so-called French genius for the fabrication of numerous artistic articles, the much-discussed capacity of Americans for the organization of mechanical industries lending themselves to mass production, or as in the even greater contrasts between say Persian rugs and German chemicals. But considering

only density of population, it is well recognized that a very considerable density is necessary for the growth of modern manufacturing industries, since a concentration of labor supply in centers of production is essential for "industrialization," that is, for the greater development of the manufacturing industries. All of the truly industrialized countries, that is, those in which manufacturing has come to have a relatively predominant place in the national economy, as in the case of the United Kingdom, Germany, and various other countries of western Europe, have comparatively a very dense population, and in the United States density is increasing at the same time that manufacturing, already very large in an absolute sense, is becoming proportionately greater in the national economy. Population density alone does not produce such a development, but along with other factors it contributes heavily to it and other things being equal tends to create it. This causes a most fundamental diversity in the industrial character of national economies, which for some purposes may be divided between those of intensive and those of extensive production. Manufacturing is per se intensive, and under the same conditions which create it other industries tend to become relatively intensive, even including agriculture, which, by its nature generally tends to be more extensive, this is illustrated in the European development of dairying rather than cattle ranching and of beet-sugar production as contrasted with cane-sugar production. Smaller proportions of land, and larger proportions of labor or capital or both, make for the intensiveness of industry in general. The differences in these conditions probably account, in fact, for the greatest contrasts in modern national economies. This principle in turn affords one of the most fundamental bases and explanations of international commerce, for a large part of present-day interna-

tional trade consists of an exchange of unlike products of countries of intensive and extensive production, of "industrialized" and "frontier" countries, of countries of dense and countries of sparse population, consists in short of exchange of finished products and raw materials, the exceptions, such as that of competition rather than exchange between beet-sugar and cane-sugar production, merely serve to prove the rule, which is borne out by the statistics of imports and exports, by commodity groups, of the principal countries. In addition to this, however, it should also be observed that there are special industries that are of much importance in certain non-manufacturing countries, which in their present form are dependent upon a large and frequently exceptionally cheap labor supply, but which might not so strictly fall within the intensive category. These are especially found in parts of Asia where the population density is very high, and are illustrated in the cases of silk and rubber. For example, the American plan for developing rubber production in the Philippines even, appears to find one of its chief obstacles at the moment in an insufficient supply of labor of the same degree of cheapness of wages as that in Malaysia. But again the same fundamental point is illustrated, namely distinctiveness of industries and products. Viewed, therefore, from any one of a number of angles, perhaps differences in racial make-up, and certainly differences in density, of population constitute a powerful factor in the international industrial differentiation which so largely underlies international commerce.

This industrial differentiation resting in large part upon the basis of population conditions, with its consequent effects upon the character of the commerce of nations, is not entirely confined to single industries, but tends in many instances to become a matter of differentiation of national in-

dustrial structures as a whole, with a corresponding trend of change in both the character and direction of external trade. Both of these phenomena, that is the industrial structure and trend of national economies and the corresponding status and change of international commercial position, particularly in the case of the United States, are considered more fully in subsequent chapters of this study. But it is of interest here to make reference to the fact that the United States is apparently undergoing a fundamental evolution in these respects, with a growing density of population and, partly as a consequence, with a tendency toward a greater predominance of manufacturing industries, toward increase in intensiveness, even in other industries such as agriculture, and toward greater importation of industrial raw materials and even foodstuffs, these imports coming more and more from the tropical countries which offer the greatest contrast in products.²² These, then, are to be counted among the consequences of conditions of population.

²² One recent analysis, from the special viewpoint of population and agriculture, cites estimates of Dr. Pearl and Dr. Reed, of Johns Hopkins University, and of others, indicating that the rate of increase of the population of the United States will probably diminish until the population becomes stationary at 175 to 190 millions. It questions whether the solution of this population problem will be by limitation as in France, by development of manufacturing industries as in England, by more intensive production in both manufactures and agriculture as in Germany, by famine as in Russia, or by war as in many countries. It surveys the resources of American agriculture, and estimates that by land reclamation of all kinds, the American population could expand to approximately 185 millions of people, although by additional adaptations such as intensive methods and great alteration of diet along vegetarian and dairy-product lines, it might be permitted to go as high as 400 or 500 millions, this latter, however, would be accompanied by use of more labor per unit of product in cultivation, much higher farm product prices, and other sharp readjustments. It stresses the changing import trade, and states: "The most important factor to be evaluated in considering a national policy of land utilization is that of the competition in our markets of agricultural products from foreign countries, particularly from the tropics." — Baker, O. E., "Land Utilization in the U. S. Geographical Aspects of the Problem," in the

The important principle from the present viewpoint, therefore, is economic differentiation on the basis of population. Final answer may not now or ever be available to the speculative question as to the degree to which the total population of the world will in the future be restricted by limitations of resources and the expansion of wherewithal for human existence from such resources; the prospects at the present stage of the industrial revolution, which is still going on, are particularly hopeful, especially in the light of the constant advances of applied science to economic conditions and the undoubted advance of the world as a whole in variety and amount of production and consumption, in short in material civilization, in recent generations, but on the other hand it can scarcely be denied that thus far expansion of population in a general way has always been to some extent limited by economic conditions, and in the very nature of things there is necessarily some final limit to such expansion. Nor, turning to the international relations phase of the problem, is it possible to state abstractly the extent to which disparities in population density in different countries have created international economic competition, there is both the tendency for high population density to prove of competitive international advantage and the tendency for certain other advantages in efficiency which often naturally flow from a certain degree of low population density to

Geographical Review, Vol. XIII, No. 1, January 1923. Another writer stresses the last-named point from the botanical viewpoint, and states "The United States has become . . . dependent on the outside world for many essentials, and will need more and more to buy plant products from the Tropics . . . our tropical importations are, in fact, peculiarly indispensable threads in the interwoven fabric of our modern civilizations. Consider rubber and other gums and resins, coffee, tea, and chocolate, sugar, oils, fruits and nuts, the fibers sisal, jute, abaca, dyes, spices, and woods" — Orton, W. A., "Botanical Problems of American Tropical Agriculture," in *Bulletin of the Torrey Botanical Club*, 53: 67-75, March 6, 1926.

counterbalance the former' advantage But one thing is clear, that is, that varying conditions of population in different countries, by their effects upon single industries and upon total national industrial and commercial structures, have a large influence upon international industrial specialization and therefore upon international industrial and commercial interdependence In a word, the human or social factor of population, like the other of these two basic factors, namely the geographic or environmental, contributes to that industrial differentiation of nations which is the reason for the existence of world economy²³

²³ N B For further data and references on the subjects of this chapter, *vide* Appendix, *infra*.

CHAPTER III

THE POLITICAL FACTOR

WORLD ECONOMIC ORGANIZATION AND WORLD POLITICAL ORGANIZATION

THE MOST familiar organization of the world is probably the political one, that is, an organization into governments, or more accurately speaking, into states. No comprehensive analysis of international economic relations may be made without consideration of this related factor. Consequently both world economic organization and world political organization may be outlined in order to show their relations as well as their points of contrast.

THE ECONOMIC ORGANIZATION OF THE WORLD

The economic organization of the world may best be viewed by briefly tracing its development,¹ especially since it is one which not only has evolved by a logical process but is still so evolving. Political changes may or may not move along

¹ It should not be inferred that the historical method is adopted as the basic one for the present treatise, which is primarily and largely intended to be analytical and to realize the advantages to be gained from statistical and other inductive facilities which are increasingly available in the modern study of economic affairs. Yet, though it involves a certain degree of eclecticism, the historical viewpoint cannot well be ignored, and this is particularly true in considering the international economic organization of the present time.

random and fortuitous lines, or in cycles. The Aristotelian concept of the circular movement of form of government from monarchy to tyranny, tyranny to democracy, democracy to "mobocracy," "mobocracy" to aristocracy, aristocracy to oligarchy, and oligarchy back to monarchy, is generally familiar. But whatever may be the trends of political organization through various forms of government or geographically from provincial states, to national states, to world empire states, or even, perhaps, toward some sort of international affiliation, economic organization offers fairly good evidence of proceeding along more or less inevitable lines of ever widening units. True, a chart of such an evolution cannot be superimposed upon world history, or even upon one branch of it, say Western history, and found to conform to the latter detail by detail. Human progress in any phase is necessarily indicated in a zigzag, even if ultimately ascending, line. But economic progress, despite any of its irregularities and even in the face of the rise and fall of civilizations, appears in the long run to move toward coordination and completeness. The trend may be discovered in the various stages into which the evolution has been divided,² these divisions having been made on various bases such as that of predominating method of exchange or that of predominating method of material production. The classification (by Bucher)³ on the basis of units of economy is the most interesting one from the present viewpoint.

INDEPENDENT DOMESTIC ECONOMY

In the economic evolution of society historical evidence indicates that the first stage was one of independent domestic economy. By this it is meant that the family, or expanded

² See Chart on p. 65

³ Bucher, *Entstehung der Volkswirtschaft*, 1893

family such as the tribe,⁴ was the organization within which the total economic process of production, consumption, and distribution was normally completed.⁵ That is, the family was a complete economic unit for the obtaining of goods and their exchange and consumption, and was not dependent upon other units. This stage is shown in the life of primitive peoples of prehistoric and modern times. It had other economic characteristics which serve to illustrate it. It included the three successive stages of direct appropriation (hunting and fishing), pastoral activity, and agricultural pursuit as the predominant production types. It at first inhibited any appreciable growth of either property and contract or division of labor in any of its forms, although these institutions and phenomena gradually emerged in the pastoral and agricultural periods. It had under such conditions extremely limited commerce, and what exchange was carried on was by method of barter. It may be said to have corresponded to the period from the pre-Christian era to about the fourteenth century in England.

⁴ Maine, Sir Henry, *Ancient Law its connection with the early history of society and its relation to modern ideas*, 3d ed., London, 1866, Chapin, F. Stuart, *Social Evolution*, rev. ed., 1915.

⁵ Or production, exchange, and consumption, or production and consumption, depending upon the category adopted on the basis of varying economic theory. Strictly speaking, if the time and place utility created by the processes of merchandising and transportation are considered in the same category as the form utility of primary and secondary material production, exchange becomes merely one type of production. Further, distribution in the usage of pure economic theory, having to do with the apportionment of rent, wages, interest, and (if the function of the entrepreneur be recognized as a distinct one, as seems logical) profits, to the factors in production, namely land, labor, capital, and the entrepreneur, is to be carefully distinguished from the usage prevalent in popular discussion and in modern commerce analysis, having to do with the transfer of goods from original producer through the various intermediaries to the ultimate consumer.

THE EVOLUTION OF ECONOMIC ORGANIZATION
OF SOCIETY⁶

UNITS OF ECONOMY (BUCHER)	EXCHANGE (HILDEBRAND)**	PRODUCTION (LIST)***	LABOR STATUS	ENGLISH HISTORY ILLUSTRATIONS
Independent Domestic Economy	Barter Economy	Direct Appropriation	Laboring Classes not Differentiated	Prehistoric
		Pastoral		B C
		Agricultural	Slavery and Serfdom	11th-14th Centuries
Town Economy	Money Economy	Handicraft	Free Labor governed by custom	13th-18th Centuries
National Economy	Credit Economy	Industrial Economy	Individual Contract	18th Century to present time since beginning of the Industrial Revolution)
World (****) Economy			Group Contract	

⁶ Reproduced with certain modifications, from Ely, Richard T, *et al*, *Outlines of Economics*, 3d Revised Ed, p 45 "These various classifications are not contradictory, on the contrary, they supplement each other. Still other divisions are possible." The "various points of view are roughly correlated and applied to the history of England. These divisions of time are in no sense accurate, and are intended merely to be suggestive."

(**) Hildebrand, B, *Die Nationalökonomie der Gegenwart und Zukunft*, vol 1, 1848

(***) List, Friedrich, *The National System of Political Economy*, translated (Longmans Green) 1904

(****) Added by the author

NOTE — Concepts, in one form or another, of stages or units of economy, are to be found in earlier writings, such as those of Bucher, List, and others, and have been developed along interesting lines by certain contem-

TOWN ECONOMY

Independent domestic economy was succeeded by town economy, illustrated in the history of western Europe by the period following that of feudalism. By this time the economico-political institutions of property and contract had become fairly well established. Functional division of labor, along the lines of division into different industries, became more clearly marked, for instead of each family's making all of its own wares, there came to be "butchers and bakers and candle-stick makers." The corresponding stage in the evolution from the viewpoint of the most characteristic method of production was the handicraft era, or from the viewpoint of method of exchange, the era of money economy. Functional division of labor within a given industry was still largely absent, for example, the shoemaker usually made the entire shoe. But to the extent that it did develop, and because there was some differentiation of the industries themselves, exchange was stimulated and became somewhat more complicated, and a rudimentary territorial division of labor appeared, and became more marked toward the end of the period when even the town was no longer a self-sufficient economic unit, traded with other towns, and even came to specialize as a town in one particular industry.

NATIONAL ECONOMY

The era of national economy was the one in which the circulatory process of material production, exchange, and consumption was not normally completed except within the

porary Continental economists, particularly by Dr. sc. pol. Bernhard Harms, professor in the University of Kiel — vide his *Vom Wirtschaftskrieg zur Weltwirtschaftskonferenz*, Jena, 1927, and the journal which he edits, *Weltwirtschaftliches Archiv, Zeitschrift des Instituts für Weltwirtschaft und Seeverkehr an der Universität Kiel*.

boundaries of a nation. In modern Western history it had begun to appear earlier, but was largely ushered in and made complete by the advent of the Industrial Revolution. That tremendous change in characteristic methods of material production, with its vast consequences in the evolution of other economic institutions and in all economic life, is too familiar and too extensive to need or admit of description here.⁷ In the narrower sense of the term "industry," as connoting manufacturing, it gave birth to the so-called "industrial era" in material production. Upon the physical basis of innumerable applications of science, through invention, to industry, as well as upon the basis of a great advance in purely economic methods, it produced the factory system and a great expansion in the variety and volume of manufactured goods. It was at this time, also, that in the machinery of exchange a true credit economy began to be built. Further, although not always thought of in this way, the Industrial Revolution did not end in say five or ten or twenty-five years after it began, but is still going on, even though, no longer being new, it has elided into an evolution.

From the present viewpoint, the important effects of this change in economic history, aside from institutional consequences such as the fortification of property and contract, consisted of the unprecedented development of every kind of division of labor. There was an introduction of true functional division of labor among actual laborers, so that, to

⁷ Cf. Day, Clive, *History of Commerce*, N. Y., 1907, Bogart, E. L., *Economic History of the United States*, N. Y., 1907, Cunningham, Wm., *The Growth of English Industry and Commerce*, London, 1910, Cheyney, E. P., *An Introduction to the Industrial and Social History of England*, Ashley, Sir Wm. J., *The Economic Organization of England*, London, 1914, Toynbee, Arnold, *Lectures on the Industrial Revolution of the 18th Century in England*, London, 1925, Beard, Chas., *The Industrial Revolution*, London, 1901, Sombart, Werner, *Der Moderne Kapitalismus*, Munchen, 1916, Hobson, Jno. A., *The Evolution of Modern Capitalism*, London, 1894.

use a well-known illustration, different workers specialized on different parts of the job of making say a shoe or a pin⁸ There was a personal separation of the factors in production, that is, individual specialization along the lines, for example, of capital and labor and "enterprise" And these indirectly contributed to the tremendous increase of territorial division of labor, or regional specialization, a process latent in basic geographical conditions, hitherto effected to a limited extent, and now released by the development of economic conditions For the "industrial system" in which these other forms of specialization were inherent, necessarily brought about concentration of capital and labor, intensification of industry, and consequently the "surplus production" which has since come to be so often quoted as one of the basic reasons for international trade That is, in this new regional specialization, or localization of industry, different areas necessarily produced more of certain types of goods than they could consume, and the system alike produced and depended upon a geographical interchange of products

WORLD ECONOMY

This regional interchange of products clearly expanded to the limits of national boundaries, and its fairly full and free flow within such boundaries clearly made the unit of economy at least as large as the nation But a consideration of the industry and commerce of modern times affords almost equal justification of the term "world economy," whether the approach be general or local. The mere volume of world trade of the present time is one approach.⁹ Another is the

⁸ *Vide* Smith, Adam, *The Wealth of Nations*, 1776, Cannan's ed., 5 Bks., 1896

⁹ The idea of international trade as not even nationally competitive or nationally distinctive, and as an almost entirely cosmopolitan flow, has been developed by some economists For a modern expression of this view,

great variety of foreign sources of articles consumed by the average individual in an advanced country, illustrations enumerating the geographic, national origins of the various articles on a typical American dinner-table are familiar. But the most convincing proof is in the industrial interdependence of existing nations, few of which could long subsist, at least without radical and even violent rearrangement of their entire economic structures, and general economic decline, were their foreign trade totally stopped.

An objection to this view of the present economic organization of the world lies in the existence of various categories of national restrictions upon international exchange. Nationalistic shipping subsidies and discriminations, difficulties in the adjustment of national systems of money and credit and artificial manipulations of "foreign exchange," and above all import and export embargoes and innumerable tariff systems and duties designed not only to divert, contract, expand, or estop given currents of foreign trade but also artificially to stimulate or discourage the natural growth of certain industries in one country or another — all these factors, it might be urged, are so extensive and considerably

cf ff "Nations are represented as rivals and competitors in some struggle for power, or greatness, or prestige. This presumption of opposing interests is, of course, more strongly marked in the presentation of commercial relations than in any other. Putting the issue roughly, but with substantial truth, the generally accepted image of international trade is one in which a number of trading communities, as, for instance, the United States, Britain, Germany, France, Japan, etc., are engaged in striving, each to win for itself, and at the expense of others, the largest possible share of a strictly limited objective — the world market. Now there are three fatal flaws in this image. First comes the false presentation of the United States, Britain, Germany, and other political beings in the capacity of trading firms. One Lancashire cotton exporter competes much more closely with other Lancashire cotton exporters than he does with German, American, or Japanese exporters of similar goods." etc —

Hobson, J. A., *The Morals of Economic Internationalism*, Riverside Press, Cambridge, 1922

effective as to prevent a free commercial interflow between nations. The existence of these factors is certainly not to be ignored. However, an examination of the volume and character of actual international trade, as a whole or as carried on individually by leading nations, and even more a consideration of the primary industrial relations, discloses the fact that all these bodies of restrictions, however sharply effective they may be in given instances and even though they may as a class be larger and more stringent than the various categories of local restrictions upon commerce within the various nations, are insufficient in their total effect very substantially to check the general international interflow and industrial interrelation. In fact, to the extent that they are mercantilistic they are designed as much to increase one type of flow as to decrease another, say to increase imports of locally unpossessed raw materials and foodstuffs and exports of manufactures, and to the extent that they involve an intelligent understanding of the true nature of the international balance of payments, including interest and services as well as goods and gold, they most certainly help to stimulate trade.

Thus, however nationalistic the trade policy of a given country may be, and however much it may run contrary to so-called natural geographic and economic laws, it tends to contain within itself a positive as well as a negative force affecting foreign trade. When to this truth is added the fact that the governments of all of the economically advanced nations concern themselves not only with negative measures, such as tariffs designed to check given types of imports or even of exports, but also with devices for promoting certain exports and for insuring the receipt of certain necessary imports, it is seen that the national policies which

tend to sharpen political boundary lines with respect to economic activities, tend directly or indirectly to increase as well as decrease international exchange. So that, whether these policies be termed consistent or inconsistent, natural or unnatural, their positive phases tend to offset their negative phases, and if they are inconsistent or unnatural, these positive phases, working together with natural economic forces, tend to produce an inevitable equilibrium. National commercial policies, then, may be looked upon as diverting certain streams of international economic intercourse, but they seldom completely destroy them, and while such policies undoubtedly partly impede the steady growth of an international economy, they do not nullify that growth and in a considerable measure they also foster it.

Turning from this consideration of principle to a notation of more immediate, obvious facts, it may be said that the only remaining argument against the existence of an international economy, would revolve either around some generalization concerning the large relative approach to economic independence by some country of unusually extensive and varied resources and industries such as the United States or by some backward country with little contact with the outside world, or around some estimate of the relatively small percentage of the total national business represented in the foreign business of such a country as the United States. But such an argument would be aside from the facts. Even Afghanistan is becoming dependent for goods from the outside world, the United States is vitally dependent upon both foreign purchases, as of rubber, tin, jute, and nitrates, and foreign sales, as of cotton and copper, and numerous manufactures, and Great Britain's economic life, and in slightly smaller degree the economic life of every in-

dustrialized country of western Europe, must have an almost daily inflow of raw materials and foodstuffs and outflow of products, if it is not to wither and ultimately end. Indeed, the economic interdependence of modern nations, in finance, and shipping as well as in trade, is increasingly familiar; and it is fundamentally shown in the basic industrial structures¹⁰

Nor does an "economy" need to be complete to a detail to prove its existence. Each stage in economic evolution embraces not only vestiges but basically necessary survivals of earlier characteristics. The "industrial" stage does not preclude, but rather assumes a well ordered preservation of, some handicraft production, certainly agriculture, and even hunting and fishing industries. In the era of credit economy the monetary system is still used, and this in turn is really posited upon barter, to the basic process there is often reversion, not simply in local instances of "horse-trading" but on a national and international scale, as during the World War in the shifts by European nations, including belligerent powers and border neutrals, from gold export embargoes to gold import embargoes, followed by "trade agreements" providing for international barter. Similarly a stage of national economy may include isolated communities practicing town or even independent domestic economy. The present stage of economic development still involves the action of the production-exchange-consumption cycles within national boundaries. Indeed, it would be inaccurate to look upon the world order, economically (as of course it would also be, politically), as simply the functioning of a certain number of individuals with relation to that order. True, there is some tendency in that direction, in trade and in industry,

¹⁰ For an analysis of the national economies of several leading nations, including the United States, and their relations to world economy, *vide infra*, Chapters VI and VII.

but world economy exists as a result, not so much of the obliteration of national and other local economies as of their definite and frequently distinctive interrelation. However, this does not lessen the fact that the entire economic process is not normally and completely consummated except internationally, that this is a distinguishing trend of modern economic history, and that a world economy exists.

These fundamental concepts are seen superficially from the viewpoint of *trade*. They will be more fully and especially developed, and their more basic expression in the underlying *industrial* system, hitherto somewhat neglected, will be further analyzed, in subsequent chapters (especially Ten to Fifteen inclusive) of the present study.

THE POLITICAL ORGANIZATION OF THE WORLD

Although there are different approaches to a view of the political organization of the world, including that of abstract jurisprudence, the most convenient one is probably from the viewpoint of international law, again, political philosophy¹¹ may consider the internal and general nature of states per se, but international law has to do with states collectively or as members of the family of nations and expresses their interrelation¹². Consequently international law may be examined in order to find what world organization it posits as a basis for its substance and procedure¹³.

¹¹ For various theories of the state, *vide* Dunning, W. A., *A History of Political Theories*, 4 vols. Vol. I, Ancient and Mediæval (1902), Vol. II, from Luther to Montesquieu (1905), Vol. III, from Rousseau to Spencer (1920), Vol. IV, Recent Times (1924, edited by Merriam, C. E., and Barnes, H. E.). For certain distinctive doctrines, *cf.* Willoughby, W. W., *The Nature of the State*.

¹² It may be objected that this is a legal rather than a political category, but in the broader sense the political includes the legal.

¹³ For a brief statement concerning states and their attributes in international law, *vide* Wilson, G. G., and Tucker, G. F., *International Law*,

STATES AND THEIR ATTRIBUTES

The organization thus viewed is one which is composed of states as the units or "legal persons" Without extensive discursion in the field of political theory or digression upon the internal constitution and qualities of the state, the external nature of this unit may be considered briefly in order to discover its principal characteristics, in so far as it is related to other similar units, and therefore its function as a part of world organization. While it is necessarily recognized in practically any category that states may vary in many of their characteristics such as area and form of government, they are most concisely defined as sovereign political unities. Regardless, therefore, of discussions as to other attributes which do or do not inhere in a state, on which

8th ed, 1922, esp pp 46-152, on states and jurisdiction, and Davis, Geo B, *The Elements of International Law*, 4th ed, 1916, esp pp 31-134. The work by Wilson and Tucker is a text rather than a treatise, but here and at other points in this chapter (which is a treatment of international law from the particular viewpoint adopted in this study) references to it have been inserted because of its comprehensive yet highly concise nature and its consequent value to the general reader. For further expositions, *vide* various other works on that subject, e g Bluntschli, J G, *Le Droit International Codifié*, 3d ed, 1895, Bynkershoek, C, *Questiones Juris Publici*, 1737, Fenwick, Chas G, *International Law*, N Y, 1924, Grotius, Hugo, *De Jure Belli ac Pacis*, 1625, Barbeyrac's ed, 1788, Hall, Wm E, *International Law*, Sir Shepstone Baker's ed, 2 vols, 1878, Hershey, Amos S, *Essentials of International Law*, N Y, 1912, Lawrence, T J, *International Law*, 1898, Maine, Sir Henry S, *International Law*, 1888, Martens, F de, *Traité de Droit International*, 3 vols, 1887, Moore, John Bassett, *Digest of the International Law of the U S*, 8 vols, 1906, Nys, Ernest, *Études de Droit International*, 1896, Oppenheim, L, *International Law*, 2 vols 1904, Phillimore, Sir Robt, *Commentaries on International Law*, 2d ed, 4 vols, 1873, Pradier-Fodere, P, *Traité de Droit International Public*, 7 vols, 1885, Rivier, Alphonse, *Principles du Droit des Gens*, 2 vols, 1896, Vattel, E de, *The Law of Nations*, 1797, Westlake, John, *The Principles of International Law*, 1894, Wheaton, Henry, *Elements of International Law*, Atlay's ed, 1904, Woolsey, Theodore, D, *International Law*, 4th ed, 1889. For effects of the World War, *vide* Garner, James W, *International Law and the World War*

question there may be controversy, it is generally recognized that if it is to be accepted as a legal person at international law, that is as a member of the family of nations, a unit must have these two fundamental characteristics, it must be political, that is, must be organized for public ends, and not for private ends as in the case of a commercial corporation; and it must possess sovereignty, that is, supreme political power ¹⁴

There have been other enumerations. Thus it has been stated that there are three essential attributes, namely, sovereignty, independence, and equality ¹⁵. But this category is not so radically different from the one just mentioned as might seem, since in it the political nature is doubtless assumed, since independence is at least technically a corollary of sovereignty, and since equality is probably also implied in sovereignty, as far as international law is concerned, though not necessarily for the practical purposes of economic fact. Indeed, this question of sovereignty and equality involves a certain dilemma of political philosophy, if the view is adopted that the power of each state is theoretically supreme and in nowise limited by that of other states, and yet if it must be conceded, as it certainly must for the purposes of international law if not also for those of political theory, that there exist a number of sovereign states, the only logical compromise for any practical purposes even of law is to accept this existence of the various states and simply to conceive of each as supreme within its own jurisdiction only, and therefore to look upon all of them as legally equal. Further, there are numerous cases of political units whose independence is not complete and yet

¹⁴ Wilson and Tucker, *op cit*, p. 47. On states as the legal persons of International Law, cf. Davis, Geo. B., *op cit*, pp. 31-43. On jurisdiction of states, cf. Wilson and Tucker, pp. 103-152, and Davis, 43-90.

¹⁵ Davis, Geo. B., *op cit*, pp. 35-36.

whose at least partial statehood is generally accepted in international law, and this is most significant in the economic relations of nations, but preserving for the moment the political viewpoint, their qualified status is probably no more inconsistent with the doctrine of independence than with the more basic doctrine of sovereignty. Consequently, if the first category of characteristics of statehood be adopted, this second category probably follows, and the essential attributes of the state, for purposes of international law, may be summed up as (1) a political character and (2) sovereignty, and as probably corollary attributes, (3) independence and (4) equality. Such a category is necessarily far from taking into account the actual economic relationships of nations, with their widely varying economic positions and their vast flow of economic intercourse in channels which are in considerable disregard of the physical boundary lines that separate abstract sovereignties.

CONDITIONS OF STATE EXISTENCE

If the characteristics enumerated be accepted as the essential attributes of a state, that is if states are looked upon as sovereign political units with independence and legal equality and no more than that, it is obvious that there are omitted certain other characteristics which are usually present and which for practical purposes seem necessary. Accordingly it is generally recognized at international law that certain of these other characteristics, if not essential attributes of statehood, are at least conditions necessary for state existence. Such conditions have been set forth as including (1) recognition by other states, since it is the external relationship with which international law is concerned, (2) political morality, as is implied in the necessity of recognition of obligations to other states, (3) possession

of a body of individuals in communal relationship, so that the continued existence of the unity may be expected, and (4) possession of physical resources, such as territory.¹⁶ The last named condition is of particular interest here. True, these characteristics do not have to do with the essential nature of the state, and if the Papacy be recognized as a legal person in the law of nations it affords an example of a state which at present possesses a very small territory, though the Vatican grounds, if considered to be without the territorial jurisdiction of the Italian state, are papal territory. Indeed, even though possession of territory is not considered to be an essential attribute of the state, which it is evidently not in pure legal theory, the usual acceptance by international law of such possession as a condition of state existence discloses the necessary adaptation of such doctrines to physical fact, and with territory are also involved the various other physical resources which are inherent therein and which determine the actual positions of nations.

STATES AND INTERNATIONAL POLICIES

It has been stated above that international law assumes the equality of states. But it is significant that this equality is explained as a juristic one. It may be likened in municipal jurisprudence to the political equality of individuals in certain forms of democracy, or, more accurately, to the legal equality of individuals under various forms of government which insure their citizens or subjects equal standing in courts of law. It is an equality of legal right, perhaps an equality of opportunity, certainly not an equality of actual political influence or economic possession and capacity. It exists as a legal status regardless of the origin, internal or

¹⁶ Wilson and Tucker, *op cit*, pp 47-48, *cf* Hall, pp 18-19

ganization, area, population, wealth, or influence of a particular state, and regardless of a state's relation to other states so long as sovereignty is not impaired. Yet the numerous and various inequalities of different states found in actual practice, while in a sense not inconsistent with the abstract legal concept, place upon it very important practical limitations, at least for the purposes of international politics. These inequalities are found in intervention (or rather in the practical limitations upon the right of non-intervention), in court precedence, in ceremonial, and in degree of influence in international affairs, and consequently suggest such phenomena as concerts of powers, the policy of the balance of power, and the Monroe Doctrine.¹⁷ These do not all involve inequality, but they indicate a conditioning of the external exercise of sovereignty in varying degree and among all states of the world.

Concerts of Powers. Politically, if not legally, there has long existed in Europe a system by which certain nations have been known as "the powers," the system being referred to by the phrase "the primacy of the great powers," and the agreement of these powers upon a particular policy by the phrase "concert of Europe." Its scope is illustrated in the attempt of the treaty of Paris of 1856 and the treaty of Berlin of 1873 at common action on the Eastern question, in its application to the sphere of influence system for the partitioning of Africa after 1885, in its influence upon the formation of the Triple Alliance and the Entente in the decades immediately preceding the World War, and in the nominal agreement of the "great powers" in November 1818 never to depart from the principles of the "rights of

¹⁷ *Vide* Wilson and Tucker, *op cit*, on independence and interdependence, pp 80-95, on inequalities among states, pp 97-101, Davis, Geo B, *op cit*, on perfect and imperfect rights, pp 90-134.

nations”¹⁸ Further, there have been categories of “great powers,” of “minor powers,” and even of “little powers”

Before the World War the “Great Powers” were, in alphabetical order of names in French Germany, Great Britain, Austria, France, Italy, and Russia Since the World War the Great Powers of the world have been commonly considered to be the United States, the British Empire, France, Italy, and Japan¹⁹

The Balance of Power. The “balance of power” policy is closely associated with the system of concerts of powers and is one which has been pursued from time to time by one or another leading nation, such as Great Britain, and by groups of powers in concert It refers to a “rude equilibrium of political forces,” and has been justified as a promoter of security and stability by reason of its tendency to uphold self-preservation and to maintain the status quo, and as conducive to peace by reason of its tendency to suppress a nation which by its excessive ambition has attempted aggrandizement²⁰ It has been stated that “its right to exist cannot be deduced from any principle of international law, unless the state system of Europe be regarded as a kind of alliance or confederation . . .”,²¹ and the state system of Europe is not commonly so regarded, although such a conception was popularly spoken of in connection with the peace and security pacts negotiated at Locarno in 1925 Some question might be raised as to whether the foreign policy of the United States has ever embraced the doctrine of the balance of power, definitively it has not, especially since the United States has been remote from the political align-

¹⁸ Wilson and Tucker, *op cit*, pp 98-101, Davis, Geo B, *op cit*, pp 108-109

¹⁹ *Vide Proceedings of the Conference on The Limitation of Armament*, Washington, 1921-22

²⁰ Davis, Geo B, *op cit*, pp 104-108

²¹ *Ibid*, p 104

ments of Europe, but the traditional policy of the United States with respect to the Far East (though more distinctly a policy of "the open door" and "equality of opportunity"), the place of the United States in the World War, and the policies of the United States in its leading rôle at the Washington Arms Conference²² both with respect to naval disarmament and with regard to the situation in the Far East, might be adduced as offering evidence of the existence of the balance of power concept as an element in its policy in international affairs

The Monroe Doctrine. However, whether or not the United States has practiced a balance of power policy in its dealings with other states generally, there exists in the relations of the states of the Americas a specific doctrine which belongs in much the same category and which, though not accepted as a principle of international law, has frequently influenced the relations of these states and has often been recognized by states in other parts of the world, namely the Monroe Doctrine. This doctrine was enunciated in President Monroe's message to Congress on December 2, 1823, and resulted from the formation of the Holy Alliance of Russia, Prussia, and Austria to which France became a party at the Congress of Aix-la-Chapelle in 1818, from that league's plans at Verona in 1822 to restore Spanish control over Latin-American countries which had formerly been colonies and which had set up their independence, and from negotiations between Mr. Canning and the United States Government in which the British Government expressed its opposition to such Holy Alliance intervention in Latin America²³. As originally enunciated it declared against any future European colonization on the American continents,

²² *Vide Proceedings*

²³ Wilson and Tucker, *op cit*, pp. 83-87, 110, Davis, Geo. B., *op cit*, pp. 110-115, Tucker, G. F., *The Monroe Doctrine*

any extension of the European political system to any portion of this hemisphere, and any European interference in the affairs of the Spanish-American republics²⁴ This doctrine has been extended to interference from any other region, as well as from Europe, and has been given application in a number of cases, including that of the French occupation of Mexico of 1861 It has also frequently been supposed to carry with it special rights and interests on the part of the United States in Latin America, not unlike the special rights and interests claimed by other powers, under the sphere of influence and sphere of interest system, in Asia and Africa, but such a view appears to be technically and even substantially inaccurate, the policy revolving around the prevention of intervention from abroad, and not implying, nor necessarily involving, any special privileges for the United States, European governments and publicists have been inclined so to view it in cases like that of Santo Domingo when the United States, in order to forestall European intervention, has undertaken to assist Latin-American governments in such matters as financial reorganization But European industrial and commercial interests have entered Latin America without North American interference. The doctrine is essentially one which limits the rights of European governments rather than the rights of Latin-American governments

THE INEQUALITY OF STATES

These questions of inequality of states, of concerts of powers, of balances of power, and of special regional policies, it may be contended, are matters of international politics rather than of international law, and in the narrower sense of the term "politics," this is true. Yet they are ones

²⁴ Moore's *Digest*, Vol. VI, paragraphs 927-969.

which are invariably treated of, even though not as legal principles, in works on international law, which vitally condition the applications of such law, and which cannot be ignored in considering the political organization of the world. They are practical limitations upon the effecting of the legal doctrine of equality. Thus "England and Portugal have the same right to borrow money, to send ambassadors, and to make treaties of alliance. But whether one can borrow money at a lower rate of interest than the other [or can borrow money at all], whether the ambassadors of both powers . . . have the same influence, and whether an alliance with one will be as advantageous as with the other, are questions that depend upon the financial resources, political influence, and military power of each state, all of which are very unequal."²⁵ Legal status is not always the same as economic status, and the latter may condition the former in fact if not in legal theory.

QUALIFIED STATUS

An even more interesting category of international law with respect to limitations upon the essential attributes of states is found in that of "legal persons having qualified status."²⁶ The matters referred to above have to do more with the question of equality; this category concerns more the questions of independence and of sovereignty itself. While, strictly speaking, sovereign states are the legal persons of international law, there are also recognized, at least by some authorities, legal persons having qualified status, and these include members of confederations and other unions, neutralized states, insurgents, protectorates, suzerainties, and mandates, and even corporations and individuals. This

²⁵ Davis, Geo B, *op cit*, p 36

²⁶ Wilson and Tucker, *op cit*, pp. 57-70.

classification involves qualified degrees, and in some cases even total absence of sovereignty. Allowing for the at least potential existence of statehood in the cases of members of unions, neutralized states, and even insurgents, and of protectorates, suzerainties, and mandates,²⁷ the status of corporations and individuals is also to be noted.

Protectorates and Suzerainties A *protectorate* is generally considered to cover a state, but one whose sovereignty is not complete, since it comes under the ægis of another state. It has resigned certain powers to the protecting state, usually including the power to conduct its foreign affairs. The arrangements vary, but a protected state is usually considered to possess all powers which it has not specifically resigned to the protecting state, however, the latter may actually dominate practically all of its internal as well as external affairs, particularly if they are of large economic importance. Further, protectorates have often merged into colonies, that is, into outright possessions of the protecting power, with complete loss of statehood by the protected state, this is illustrated in the case of the South African Republic, over which Great Britain exercised a mild protectorate by an agreement of 1884, and which as a result of war, became a British possession in 1902. The Republic of Panama is sometimes referred to as a protectorate of the

²⁷ It need scarcely be pointed out that colonies, however much they may vary in form of government, relation to their possessor, and degree of autonomy, are at international law, not even states with qualified status, but are outright possessions of the respective colonial powers, however, the status of the British self-governing Dominions is an interesting one, for some of them are administrators of mandates, and Canada, Australia, and New Zealand were represented by plenipotentiaries on the delegation of the British Empire at the Washington Arms Conference, who, affixed their signatures to important treaties. The continued growth of autonomy in the British Dominions, their place in Empire Conferences, and their separate diplomatic representation in recent years, tend to make the British Empire in some respects a commonwealth of nations politically. Certainly the status of colonies varies greatly.

United States because in a convention of 1903 the United States guarantees and undertakes to maintain its independence. Egypt is one of the most interesting cases. Somewhat prior to the World War Great Britain had attained a large degree of influence in that country, and in 1914 declared a protectorate over it, but in 1922 recognized Egypt as a state, however, the British economic control remained large.

A *suzerainty* is not vastly different from a protectorate, except that the relation is a much closer one, the vassal sometimes being a mere tributary of the suzerain, with no international status; a state under suzerainty usually possesses only such powers as have been conferred upon it by the suzerain. Bulgaria was for a time a tributary though nominally autonomous principality under the suzerainty of Turkey. The "domestic dependent nations" of Indians under the suzerainty of the United States constitute a rather anomalous case. The limitation of the sovereignty of the country or people is generally much greater than in the case of a protectorate, if indeed, such sovereignty can, in some cases, be said to exist.

Mandates. These constitute a new form both of dependency, and, in part, of quasi-statehood. They were provided for by Article 22 of the Covenant of the League of Nations and applied to certain colonies and territories which had been surrendered by Germany and Turkey. They are divided into three classes. Those of Class *A* are territories which are indicated as approaching statehood; Class *B* mandates are territories which are considered to need considerable supervision, Class *C* mandates are to be administered as integral portions of the respective territories of the mandatories.²⁸ Perhaps the only essential distinction

²⁸ For a fuller account of the mandate system, *vide infra*, Chapter V.

between mandates and certain other forms of dependencies mentioned above lies in the fact that title to them passed to the Allied Powers and that, although they were allocated among the latter, reports on their administration must be made to the League of Nations, and that they are declared to be a trust of civilization. In any event they represent varying degrees of statehood, Mesopotamia, Syria, and Palestine are indicated only as territories of potential statehood, while Class *B* and Class *C* mandates can scarcely be referred to as states in any sense.

In general, protectorates, suzerainties, and mandates might be said to lie in the twilight zone of statehood.

CORPORATIONS

Although international law deals primarily with states, and posits these as its legal persons, it finds it necessary also to take cognizance of different types of corporations. One type is the corporation organized for purposes involving the exercise of political powers and which in certain cases has even performed political acts not provided for by the charter but sanctioned by the chartering government, this type of corporation has had an important place in the economic and political development of America, India, and Africa. It is illustrated by the English East India Company, which from 1600 to 1858 exercised substantially sovereign powers in India, by the British South Africa Company, which was chartered in 1889 and in 1891 was given powers of political administration, and by other similar companies which were chartered by European governments for operations in Africa and Asia.

A second step in this particular descending category of legal persons of qualified status is represented by important commercial concerns which have often been the agencies of

their governments in activities within other, nominally sovereign, countries. "In recent years commercial companies have secured special concessions for the construction of railways, opening of mines, etc., in many regions. These companies have often received the approval of their governments and have sometimes had government subsidies. The areas in which these companies operated or in which they had concessions were considered within the spheres of interest of their states."²⁹ And, it should be added, they have sometimes been partly owned, though only commercially so, by important officials of their governments or even by their governments themselves, as in the case of the Anglo-Persian Oil Company, the British interests in the Royal Dutch Shell Syndicate, and the South Manchurian Railway Company. A list of companies of this general type would be a long one and would include many which have had to do with petroleum and other mineral resources, railways, and telegraph and wireless systems. The phenomena of their activities will be dealt with at various points in subsequent chapters, but they are noteworthy in this connection on account of the recognition of their quasi-political activities. They illustrate the point that it is difficult to determine where states leave off and other organizations begin even in international relations.

However, a further step in the category concerns corporations which do not necessarily carry on even such activities but are of the kind ordinarily classed at law as private. Even these are sometimes classified as legal persons having qualified status. "Corporations organized for private purposes come within the field of international law, when in time of war their property or other rights are impaired, when maritime law, whether of peace or war, may have been in-

²⁹ Wilson and Tucker, *op cit*, p. 62

fringed, and when their rights are involved in the domain of private international law " ³⁰

INDIVIDUALS

According to some authorities there is in international law a doctrine of the "inseparability of the individual from the state," and this doctrine is not illogical if there is maintained the pure legal concept of the law of nations as a body of law dealing with the relations of states and states alone. Yet modern international law, in some interpretations, goes so far from this concept as to take cognizance of not only corporations but also individuals. Further, it tends to recognize them not simply as parts of the state to which they belong, it also tends to admit them to the category of legal persons of qualified status. "Without entering into discussion of 'the doctrine of the separability of the individual from the state,' it is safe to affirm that individuals have a certain degree of competence under exceptional circumstances, and may come under the cognizance of international law. General admiralty and maritime procedure against a person admit the legal status of an individual from the point of view of international law. *The extension of trade and commerce has made this necessary*" ³¹

POLITICAL AND ECONOMIC ORGANIZATION

The above outline of the political organization of the world is not set forth with the purpose of arguing the general in-

³⁰ *Ibid*, p. 61, in chapter on "Legal Persons Having Qualified Status." The same authors say, in chapter on "States," p. 47: "It is of the relations of states that public international law mainly treats. The unity must be *political*, i.e., organized for public ends as understood in the family of nations, and not organized for private ends as in the case of a commercial company."

³¹ *Ibid*, pp. 62-63. Last sentence italicized by the author.

validity of international law That body of rules with its emphasis upon legal status has useful purposes, and its partial establishment, if it can be spoken of as established, has been accomplished with extreme difficulty; in its further fortification and clarification the beneficial possibilities Further, it is recognized that a distinction may be drawn between international law, and, in the narrower sense, international politics, just as these, in turn, are not the same as political philosophy; yet if the political organization of the world is not expressed in international law, in terms of states and the attributes and rights which they possess in their relations with each other, it is difficult to discover definite expression, other than in the purely theoretical concepts of publicists, which vary greatly States are posited as the units of the relations

Such a formal organization is of course a significant and necessary one, and one which is recognized in economic analysis, as in classifying and comparing statistics of resources and currents of trade,³² and to the extent that it rests upon such realities as economic unity, it is entirely practical and valid. To the extent, however, that it is arbitrarily maintained in the absence of such realities it is in large measure artificial, and tends to become in some cases such as those of imputed sovereignty, independence, and equality, a legal fiction Even such bases of statehood as the ethnic one often give way necessarily to economic considerations, for the modern national state is often a racial polyglot, and, further, it often reaches out economically as a colonial power to possess still more diverse racial elements, witness not only the "racial problem in the colonies" but also the European "problems of mixed populations" and the consequent dif-

³² However certain recent analyses published by the U S Shipping Board and the U S Department of Commerce have adopted trade and shipping regions as bases of categories

faculties of plebiscites and the bending of the Wilson plan for ethnic boundary lines to meet such economic necessities as those of corridors to serve as trade and shipping outlets, in the making of the "new map of Europe" The most solid foundation for nationalism and real statehood is apparently the economic one, as could be abundantly illustrated by historical and present-day references, as for example to the period of the development of modern states on the basis of economic changes after the decay of Feudalism, to the unification of the German Empire after its constituent parts had been drawn together economically, or to the case of China, whose political instability and want of integration would seem to be due primarily to lack of development of railways and other communication facilities and of economic solidarity. Indeed, a careful review of the economic organization and of the political organization of the world, as outlined above, and particularly a comparison of the economic units, that is units of economy, with the political units, reveals the logical and basically conditioning character of the former. This comparison is not to be made for purposes of sophistry, in order to glorify the importance of the economic, it shows simply the yielding of political form, not only to governmental and ethnical elements, but especially to economic fact, the gradual and inevitable shaping of political concepts and categories to the trend of the world's growing industrial and commercial relations and ever widening units of economy.

A recent work on political science,³³ in treating of the physical basis of the state, states that "in last analysis all phenomena are transformations of physical energy, and the activities of the state are no exception. Given the individuals

³³ Gettell, Raymond G, *Introduction to Political Science*, pp 17-27, pp 64-65

that constitute the state, the various combinations of these individuals, the natural environment in which they exist, and the interrelations among these, and natural science explains the state in its own terms," and goes on to analyze the conditioning of state development by contour, climate, resources, and general aspects of nature. Further, it traces two tendencies in modern statehood, one toward further crystallization of the national state which began to emerge some five centuries ago, with well-defined, natural boundaries and homogeneous peoples, the other toward a world organization lacking such ethnic unity and accompanied by the formation in recent centuries of large colonial empires and such "internationalistic" phenomena as efforts to set up world federations, it reads, in part "Finally, the enormous expansion of economic interests, by which the whole world has become a single market, with trade no longer limited by natural or political boundary lines, is striking a powerful blow at the very foundation of the national state"

It is this development which it is partly the purpose of the following chapters to explain — a development, in large measure, in the direction of a basically economic organization of the world

CHAPTER IV

THE LEGAL FACTOR

LEGAL SYSTEMS AND INTERNATIONAL ECONOMIC PROCESSES

IN THE preceding chapter the economic organization of the world was outlined, and international law and politics were examined in order to trace the political organization of the world and its relation to the economic organization. A consideration of other aspects of international law, as well as of municipal law and of certain quasi-legal or extra-legal processes, will provide a further view of the status and trend of international economic relations. Whereas the former had to do largely with public law,¹ and politics, the latter involves also private law and other private institutions. Law affects commerce and other economic relations in numerous ways, but principally through its bearing (a) upon property, and (b) upon contract, which in so many instances has to do with property rights, that is, with the holding and transfer of property. The legal factor in world economy, therefore, may be treated under the following headings: (1) the status of property at public international law,² or at international law proper, (2) the status of

¹ For a treatment of the concepts of public law, *vide* Willoughby, W. W., *Fundamental Concepts of Public Law*, N. Y., 1924.

² For general bibliography on international law, *vide* footnote in preceding chapter.

property at private international law; or in more accurate legal terminology, private property and the conflict of laws; (3) municipal commerce laws; (4) extra-legal adjudication of economic disputes.

INTERNATIONAL ECONOMIC RELATIONS AND INTERNATIONAL LAW

STATE PROPERTY

Since the political organization of the world is an organization primarily, if not nominally exclusively, of states as legal persons, it is natural to find that international law primarily, if not exclusively, recognizes state or public property. Not only does the state's jurisdiction extend to all of its public property, but the property of a state, it is held, includes all of the lands, water, and air within its limits. Consequently, the fundamental concept of property in the doctrines of international law is distinct from that of private ownership. The latter is only relative and is dependent upon the state's internal regulations, of which international law primarily does not take cognizance; thus private property may be seized for state debts. In a juridical sense, therefore, all property at international law is, if not public property, certainly state property.³

But that this concept is not maintained for all purposes is shown not only in the rules concerning what is purely private property, but also in distinctions of international law concerning the varying status of state property. Thus it has been held that a state may own property of three different types, involving somewhat different capacities. (1) It may possess the immediate as well as the ultimate real property within its own jurisdiction, such property may in time of war

³ Wilson, G. G., and Tucker, G. F. *op cit*, pp. 154-156.

come within the scope of international law. (2) It may in its state capacity hold property outside its own territory. (3) It may, as a private individual, own property within the jurisdiction of another state; property of this type is nominally subject to the municipal law of the place of location ⁴

PRIVATE PROPERTY

At the very outset it is obvious that a considerable proportion of all international disputes, which ultimately involve the states themselves and in certain cases even lead to hostilities, arise not over questions of the lives of given nationals, nor of "national honor" in the various interpretations of that term, but over questions of private property and contract rights. This is not to say that the clash of private economic rights is the principal cause of war, for war is a complex phenomenon with many and varying explanations in given cases, and is probably prevented more than it is caused by industrial and commercial relations. But it is quite clear, and will be generally conceded, that such private economic rights have a large place in the relations, public as well as private, of modern states. On the other hand, it is also clear that many of the adjustments made in such relations whether by ordinary diplomatic negotiation or by other, more extreme procedure, including at times armed hostility, in one way or another affect these private rights of property and contract, either by way of their support and fortification or by way of further interference or destruction. The extreme cases of difficulties between nations may involve many factors, a huge conflict like the World War may be variously explained in terms of dynastic ambition, racial psychology, colonial rivalry, or immediate industrial and commercial competition. But in the ordinary course of in-

⁴ *Ibid*, citing Hall, H. E., *International Law*, 6th ed., p. 171

ternational relations commonplace incidents concerning the property rights of private individuals play a large part. The importance of such factors may be illustrated in the foreign policy of a given nation. For example, the recent temporary refusal of the United States Government to recognize the existing régime in Mexico was to a considerable extent caused by a refusal of that régime to guarantee established property rights of nationals of the United States. Indeed, the doctrine of the Open Door and of equality of opportunity, which is perhaps the outstanding characteristic of American foreign policy, by its very phrasing as well as by its application indicates a hanging upon private rights of property and contract.

Considering such law alone, it is a striking fact, regardless of any doctrine of the inseparability of the individual from the state or of any correlative conception of all property as state property, that a large portion of the body of international law deals directly with property, much of which is for municipal and all practical purposes private. It is unnecessary to support this generalization by a detailed survey of the entire field of such law, but mention may be made of the different ways in which it is apparent.

PROPERTY AND THE AMICABLE SETTLEMENT OF INTERNATIONAL DISPUTES

The amicable settlement of international disputes,⁵ whether by *diplomatic negotiation*, *mediation* through good offices, *commissions of inquiry*, special *conferences* or congresses, the *League of Nations* (under Articles XI, XII, and XIII), *arbitration*, the *Permanent Court of Arbitration* (under the Hague Convention of 1907), or the *Permanent Court of In-*

⁵ Wilson and Tucker, *op cit*, pp. 220-225.

ternational Justice provided for in Article XIV of the League of Nations Covenant and in a statute of the Assembly, of the League of 1920, necessarily involves property rights in ways too multitudinous to enumerate

PROPERTY AND NON-HOSTILE REDRESS

In the various processes of non-hostile redress⁶ the affecting of private property rights is even more direct and apparent. This was true in the case of the older method of *marque and reprisal*. It is obvious with respect to *non-importation* and *non-intercourse* and boycott, whether by government declaration or by the voluntary action of groups of nationals as in the recent cases of extra-legal boycotting of Japanese goods by large groups of Chinese citizens. *Retorsion*, or retaliation in kind, is frequently commercial. *Reprisal*, to the extent that it is still countenanced, may include seizure and confiscation of private as well as public property, and restraint of commercial intercourse. *Pacific embargo*, with its detention of ships and goods, and *pacific blockade*, are per se commercial. It is also significant, though this is not a part of the body of international law, that one of the principal methods provided in the League of Nations Covenant (Article XVI) for the enforcement of findings of the League in its proposed treatment of disputes among its members consists of the severance of trade and financial relations, that is, of economic non-intercourse.

PROPERTY AND WAR

Thus while public international law, or international law proper, makes little provision for the status of private property and contract rights in the ordinary processes of peace,

⁶ *Ibid*, pp 225-231

its application has much to do with such rights in cases of international disputes which are settled by amicable methods or by non-hostile redress. This is also quite true in case of actual hostility. While war is primarily a conflict between armed forces, it is a fact too well known to need very lengthy elaboration that it usually involves an economic struggle. Indeed it is the possession or non-possession of economic sinews that underlies combative ability and fundamentally conditions the outcome. This was fully illustrated in the international economic struggle which was carried on back of the battle lines of the World War.⁷ At such times of pooling of national resources there is usually an easy transition from private property to public property, but the property involved is largely in the first instance private property.

Property on Land During War. The tenets of international law provide for the treatment of enemy property, both private and public, during war.⁸ Public property of the enemy was formerly regarded as hostile and liable to seizure. Modern custom has tended to mitigate the severity of this rule, although practice during the World War varied. In general the *public property of one belligerent within the territory of the other*, if real property, may be administered during the war for the benefit of the latter state, and if movable property is liable to confiscation except in certain cases such as those of works of art. Concerning *public property*, under conditions of military *occupation*, unless itself of hostile nature and subject to destruction, the rules of the Hague Conference of 1907 (Articles 53, 54, 55) undertook to con-

⁷ For an indication of this *vide* U. S. War Trade Board, *Report of the War Trade Board*, 1920 (a final report, dated June 30, 1919, recording the activities of the board in trade and other economic control during the World War).

⁸ Wilson and Tucker, *op cit*, pp. 250-256.

fine confiscation to immediate military necessities, but practice has varied, particularly during the World War. The rules concerning *private property* have also varied. The *real property* of nationals of one belligerent situated *in the territory of the other belligerent* was at one time commonly appropriated by the latter, and later tended to be treated as the property of a non-enemy national, but during the World War was generally subjected to government control, this finds illustration in the World War in the case of German property such as breweries in the United States. The *movable* (in general personal) *property* of nationals of one belligerent situated *in the territory of the other* was until recent times considered subject to appropriation, this view being held as late as 1814 by the United States Supreme Court,⁹ later tendencies were toward non-molestation of such property. However, practices during the World War tended at least in some measure to revert to the former treatment. Such personal property, including securities and "industrial property" such as patents and trade-marks, was at that time commonly sequestered and, along with real property administered under "alien property custodian" systems, theoretically the doctrine of its being in trust was followed, and in many cases there has been either direct restoration or liquidation adjustment under "mixed claims" decisions, but in some instances, as in the case of German dye and dyestuffs patents sold to the American Chemical Foundation, the domestic sale of alien enemy property even where cash restitution is made or is contemplated pending final adjustment of mixed claims would seem to amount partly in fact, if not in theory, to appropriation, since patents inherently possessing their potential value by reason of exclusive knowledge of secret industrial processes and sold to

⁹ Brown vs U. S., 8 Cr., 110

domestic competitors, in one view are scarcely fully restored by payment of cash¹⁰

Concerning *private property in an occupied area*, the Hague Conference of 1907 affirmed (Article 46) that such

¹⁰ In connection with and in addition to the treatment of private enemy property on land during war, it should be noted that there is also the question of international private claims, arising out of both peace-time and war-time acts. On this subject, in general, *vide* Borchard, Edwin M., *The Diplomatic Protection of Citizens Abroad or the Law of International Claims*, 1922

For full data concerning the treatment of alien enemy property in the United States during the World War, *vide* (1) U S Government, *Trading with the Enemy Act, and Amendments thereto together with Certain Executive Orders and Proclamations Issued Thereunder*, 1925, (2) annual reports of the Alien Property Custodian, esp *Annual Report of the Alien Property Custodian for the year 1922*, 67th Congress, 4th Session, Document 525 (*vide* pp 5-8 for brief statement of methods of administration and disposal of enemy property), and *Annual Report of the Alien Property Custodian for the Year 1925*, 69th Congress 1st Session, Document No 94 (esp p 11 for summary statement of cash and assets on hand and claims paid on various dates, to December 31, 1925)

The ultimate treatment of enemy property seized in the United States during the World War was linked with the whole process of settlement of mixed claims arising out of the War by a resolution of Congress approved July 2, 1921, which declared the state of war at an end and in section 5 provided that all property of the German and Austro-Hungarian governments or their nationals which had come into the possession or control of (or had become subject to the demand of) the Government of the United States should be "retained by the United States of America and no disposition thereof made" until such time as those former enemy governments "shall have respectively made suitable provision for the satisfaction of all claims" of American nationals against the said governments arising out of the war

For texts and data on these matters, *vide* (1) U S Government, *Treaty Series* No 658, 1922, containing (pp 4-7) text of treaty between the United States and Germany restoring friendly relations, ratified 1921, and (pp 1-4) proclamation of President of the United States of November 14, 1921, citing peace resolution of Congress of July 2, 1921, and (pp. 9-121) pertinent portions of the treaty of Versailles (concluded June 28, 1919), (2) U S Government, *Treaty Series* No 665, 1923, containing text of agreement between the U S and Germany, concluded August 25, 1921, for the establishment of a Mixed Claims Commission, (3) U S Government, *First Report of Marshall Morgan, Assistant to the Agent of the United States before the Mixed Claims Commission, U S and Germany*, 1924, containing (p. 3) Text of Germany's Acceptance of Primary Liabil-

property "cannot be confiscated," and (Article 47) that "pillage is formally prohibited", and publicists state that present practice is to exempt such property "so far as possible" from the consequences of hostilities, and to justify its seizure only under military necessity. But the events of the World War also show the difficulty of establishing this rule, the devastation of agriculture and manufactures and the destruction or partial destruction of mines in Belgium and northern France are cases in point, even though they were made the basis of insistence by the victors upon restoration and reparation at the close of the War. Furthermore even the legal rules referred to, in their interpretation of military necessity, recognize several types of legitimate seizure. These cover the taking of *booty*, which in the narrower sense included munitions subject to outright appropriation, and certain other types of seizure in which valuation is supposed to be assessed and reported and receipt given. Thus the right of *angary*, admitted in the Hague Convention of 1907, and commonly practiced during the World War, permits the seizure of transport and communication facilities subject to restoration and compensation, *contributions* levied in excess of taxes, *requisitions* of payments in kind of articles necessary for occupying forces, and *foraging* where lack of time makes requisition inconvenient, are also recognized

ity (May 15, 1923), (4) Mixed Claims Commission, U. S. and Germany, *Administrative Decisions and Opinions of a General Nature* (etc.), to June 30, 1925, containing esp. (pp. 1-15) Administrative Decisions No. I and No. II outlining principles adopted by the Commission for Adjudication of Claims, (5) Statement of Robert W. Bonning, Agent of the United States before the Mixed Claims Commission, U. S. and Germany, on "Return of Alien Property," in *Hearings Before a Sub-Committee of the Committee on Ways and Means* (etc.), *House of Representatives*, 69th Congress, 1st Session, on H. R. 10820 for summary of number and amount of American Claims (esp. 1-12), (6) various other reports and published decisions of the Mixed Claims Commission.

methods of seizure of private property in occupied areas during war, although theoretically they necessitate receipts, if possible, and ultimate compensation. With regard to perhaps only one economically important form of property is there a decided tendency toward complete exemption. Thus it is asserted that in this respect "modern commercial relations as influenced by state credit have been more powerful than theory or country," and that enemy subject ownership in *public debt* is so exempt and that in practice interest has even been paid thereon during war¹¹. In general, two principal points are to be noted in the treatment of enemy private property during war and in the rules of international law relating thereto: (1) such property is seldom, if ever, completely exempt from molestation in actual practice, (2) in many if not in most cases seizure does not theoretically amount to appropriation, the evolving rules of international law attempt increasingly to preserve such property from molestation or at least to provide for ultimate restoration or compensation, and a lagging tendency in this direction in actual practice, while to a considerable extent offset during the World War, finds perhaps partial though incomplete reaffirmation in the post-war settlements.

Property at Sea During War. There is some similarity between the rules of international law concerning the war-time treatment of property on land and of property at sea, but in the latter case property rights appear to be much less respected than in the former. This is apparently true despite the attempts to establish and fortify the doctrine of "the freedom of the seas," made by various nations including the United States, and especially Great Britain which has had so large a share of the merchant tonnage and traffic of modern international commerce and therefore has had little

¹¹ Wilson and Tucker, *op cit*, p. 254.

to lose and much to gain by the development of that doctrine. It is probably true for the reason that the high seas have a much less definite status than land areas, in either a legal or a practical economic way, legally, beyond the limits of coastal jurisdiction which does not ordinarily extend beyond the three-mile limit, they constitute a sort of overlapping point or twilight zone of the general territorial jurisdiction of states as politically organized, and economically they are unpopulated, are the scene of few industries other than certain fishing activities which tend to have a shifting location, and simply comprise areas of large but more or less irregular passage of traffic. Should man's economic activities be extended to a fuller control and development of their resources and transportation facilities their status might become more definite, recognition by treaties of special national fishing rights even beyond territorial waters is a small beginning of such control. But at the present stage of development the high seas are largely, whether politically or economically considered, a kind of no-man's-land and this finds some reflection in the laws of war concerning property at sea.¹²

Ships at Sea. It is the general rule of international law that *public vessels* of a belligerent, with certain exceptions, as in the case of hospital ships, are liable to capture by the enemy in any port or part of the sea except in neutral jurisdictional waters. Interestingly enough, the same general rule applies to *private vessels* of the enemy, with certain exceptions as in the case of small coastal fishing vessels. However, certain special questions arise in this connection. For example former customs and the Hague Convention of 1907 indicated an allowance of some days of grace for *departure of enemy ships* at the outbreak of war, and such periods were usually allowed in the earlier years, though not in the later

¹² *Ibid.*, pp 258-265, also 267-291

years, of the World War. Again there is the question of the *transfer of merchant ships of a belligerent to a neutral flag* in order to escape the consequences of war. According to the Continental view such transfer was usually held void, evasive intent being considered or even assumed, while both the British and American views tended to validate any such transfer if a bona fide one, and the Declaration of London of 1909 proposed detailed rules for the clarification of views and regulating of practices. However, during the World War British and American tended to coincide with Continental practice. A further question of the status of ships at sea during war is that of armed merchant-men. A belligerent's right to arm its merchant vessels for purposes of defense was in general rather well established before 1914, but during the World War it was exercised to an increased extent, particularly on account of the new submarine menace. Nations like Great Britain found such arming very necessary, and the United States as a neutral accepted the practice although it tried to establish rules, such as those concerning the size of the guns to be mounted, which would more carefully preserve the distinction between merchant-men and war vessels. Further, the treaty concerning submarine activities which was drafted at the Washington Arms Conference¹³ has been said to imply the arming of merchant ships. It has been pointed out not only that the existence of submarine methods in naval warfare necessitates such arming but that continuation of the right of such arming by inference perpetuates such methods, in recent years attempts have been made, at the Washington Arms Conference and in other proposals, to bring about the abandonment of

¹³ *Proceedings of the Conference on the Limitation of Armament, 1921-22*, U S Sen Document, 126, 67th Congress, 2d Session, Proceedings of Plenary Sessions, pp 68, 157-165, appendix pp 108-111

submarine warfare, and this movement has been led by Great Britain,¹⁴ whose insular location and unusually large dependence upon overseas shipping for the maintenance of her national economic position naturally cause that nation to take such an attitude. There can be no doubt that the submarine is an agency which is peculiarly menacing to international commerce in time of war.¹⁵

Cables and Wireless Telegraph Facilities. While, as in other cases, it is difficult to summarize tenets which have not been definitely established or uniformly followed, it may be observed that the rules of international law make *cables* between two belligerent areas subject to "war exigencies," and cables between belligerent and neutral territory liable to interruption within belligerent jurisdiction or even in neutral jurisdiction if used for war purposes, while such facilities if operated between neutral territories are not legally liable to interruption. *Wireless* telegraph facilities may be regulated or their use prohibited if they are within areas of military operation, further, the unneutral use of nominally neutral facilities is subject to penalties for such unneutral service, and wireless apparatus so used may be sequestered or even confiscated. Entirely neutral service of neutral wireless telegraph facilities, like that of neutral cable facilities, is technically exempt from molestation, but in actual practice during the World War even ordinary neutral radio communications were subjected at times to cen-

¹⁴* *Idem*

¹⁵ It is to be noted that the Arms Conference treaty on limitation of naval armament among the "five powers" limits submarine tonnage and that, while prior articles of the submarine treaty refer to rules of war which submarines must observe, Article IV refers to the "practical impossibility" of using the submarine as a "destroyer of commerce" without violating such rules, the question may be raised as to whether this commits the signatories (U. S., the British Empire, France, Italy and Japan) to the prohibition of its use as such.

sorship as a precautionary measure when it could be physically accomplished "

Goods at Sea Although numerous attempts have been made to establish rules exempting private property from capture at sea during war, several categories of goods at sea, except in neutral jurisdiction, are liable to such capture. These include (1) all *public goods* with certain limited exceptions as in the case of works of art, (2) *private hostile goods* not under a neutral flag, (3) *contraband* of war under any flag and outside neutral jurisdiction and destined for enemy forces, and (4) *neutral goods* in the act of *violating* an established *blockade*. All other goods are theoretically exempt. The Declaration of Paris of 1856 included provisions to the effect that the neutral flag covers enemy goods except contraband and that neutral goods except contraband are also exempt from capture even though under an enemy flag, but these rules were not established, practices have varied, and during the World War many even partly established distinctions fell away and in some cases even neutral goods under neutral flags were destroyed, though this was a contravention of fairly well established rules such as those first mentioned. These rules also included provisions for methods of capture and prize court adjudication of capture cases, although the indiscriminate destruction of merchant vessels during the World War also violated such rules, however much such violations were protested.

PROPERTY AND NEUTRALITY

Neutrality is in a sense a concomitant of war, in that the neutral status of one state, if it be one of ordinary neutrality and not of neutralization, necessarily presupposes the belligerent status of other states, consequently the effects of neutrality upon property are closely asso-

ciated with the effects of war upon property and have been incidentally touched upon in what has been stated concerning property and war. But in the discussion of that question emphasis was placed upon the effects of war upon the property of belligerent states and their nationals, whereas it is important also to consider the matter primarily from the viewpoint of the particular effects upon the property of neutrals and their nationals ¹⁶

It is first necessary, however, to note that neutrality in general takes different forms. Aside from earlier distinctions, now generally considered invalid, between perfect and imperfect neutrality, as well as distinctions such as that relating to so-called armed neutrality, there is a type of conventionalized neutrality, or neutralization, which is to be carefully distinguished from ordinary, temporary, voluntary neutrality, or neutrality proper. The neutralization of a state or a portion of its territory may involve a degree of compulsion or of permanence; the powers thus may neutralize a country in order to make of it a buffer state or to guarantee it immunity from attack, or to insure some permanent freedom of a branch of commerce.

• **Neutralization.** In addition to neutralized states or portions of states there are instances of *neutralized routes of commerce*. Thus in a Convention of 1888 the nine powers, Great Britain making certain reservations, agreed to "a definite system destined to guarantee at all times, and for all the powers, the free use of the Suez Maritime Canal," and rules therefor were adopted. Practically the same rules were provided for in the British-American Treaty of 1901 concerning the construction of a canal on the Isthmus of Panama, the later adoption by the United States of a tolls system for the Panama Canal with exemption for American

¹⁶ Wilson and Tucker, *op cit*, pp 298-360

vessels (later repealed) was probably not contrary to this intent (though possibly to other purposes) of the treaty, but it may be argued that in certain emergencies the United States might not keep the canal open to the ships of all nations, just as the British Government might actually close the Suez Canal, yet these facts and possibilities probably do not alter the theoretically neutralized status of these canals at international law. It is also clear that the neutralization of a transportation route, as of a state, is considerably different from a voluntary and temporary adoption of neutrality by a given state during a war between other states, but it is commonly considered in connection with the latter category, and has a peculiar importance in world commerce. This is further illustrated in the post-war case of the Turkish Straits.

Commerce and Neutrality. Considering neutrality proper, that is, the non-belligerent status of a state in time of war, it is obvious that such a state and its nationals are to be considered generally free from the exigencies of the war, in their economic as in their other pursuits, so long as no unneutral acts are committed or in other words so long as the status of neutrality is strictly maintained. This is particularly clear with respect to their property and contract rights within their own territory, which is considered to be free from invasion and molestation in any way. According to the doctrines of international law they also have the same general right to carry on international commerce as in time of peace.

However, not only is it true that their foreign trade and shipping and other foreign economic activities, such as financial ones, are in fact usually much altered in war time, as in the economic if not legal closing of certain foreign markets and the special stimulation of certain types of trade

and trade with certain regions, but it is also true that their *general neutral legal right* to carry on external commerce necessarily comes into frequent opposition to the *special rights of belligerents*. This results in considerable vagueness and variation in the rules which have been formulated at international law concerning the exact demarcation of these general and special rights, so that the treatment of neutral commerce cannot be dismissed by characterizing it as exempt from interference. Specifically this treatment has been determined by matters of destination, ownership of goods, and, in the World War, origin and nationality of vessels.

Angary Before considering the effect of neutrality upon ships and goods in the actual process of commerce, practices under the right of angary, alluded to above, should be here mentioned. This right, of *jus angariae*, is the right of seizure of transport and communication facilities, subject to restoration and compensation. The practice had tended to be obsolete for a long period prior to 1914, but it had been permitted under Article 19 of Hague Convention V of 1907, and during the World War many neutral ships were seized and pressed into service by the belligerents. The British Government reaffirmed this right in March 1918, and the American Government took over a number of Dutch merchant vessels and after the Armistice paid compensation for their use and for their loss when the latter had occurred. There were still other cases in which northern neutral shipping came into the service of the Allied and Associated Powers by special agreement, but the right of angary itself was sufficiently exercised to indicate its retention in modern practice.

Ownership of Goods In the regular processes of trade and shipping where there is no forced service, liability to capture to a considerable extent involves the ownership of

goods In the first place, for obvious reasons, neutral goods on neutral ships are technically exempt from the exigencies of war For a long period it was the general doctrine that enemy goods could be seized even though under a neutral flag and that neutral goods were exempt even under an enemy flag, in short that ownership of goods was the determining factor in the treatment of neutral commerce. Modern practice varies greatly, but with a tendency to regard any goods on enemy vessels as enemy goods and even whether legally or not, to subject neutral vessels carrying enemy goods to the same treatment as enemy vessels, that is to extend the powers of belligerents at the expense of neutral rights of commerce The Declaration of Paris of 1856 undertook to exempt from capture both neutral goods under enemy flag and enemy goods under neutral flag, with the exception of contraband But there has been much departure from these principles and during the World War there were cases, of course protested, of seizure and even destruction of neutral vessels thought to be carrying enemy goods.

Contraband Articles for use in war are termed contraband of war and are legally subject to seizure, regardless of flag Attempts have been made to formulate rules concerning treatment of contraband, including penalty Before 1914 it was generally considered that no penalty was involved in the mere transportation of contraband, but that *hostile destination* of either absolute or conditional contraband justified the penalty of condemnation Further the Declaration of London of 1909 if ratified would have permitted condemnation of a vessel if contraband constituted "either by value, by weight, by volume, or by freight, *more than half the cargo*" (Article 40) At times certain states have substituted *preemption* for condemnation, that is have

simply purchased the goods at mercantile value plus reasonable profit, but generally speaking confiscation has been the penalty for contraband of hostile destination, and during the World War confiscation and even destruction were resorted to without full proof of hostile destination.

Much difficulty has arisen in determining just what commodities are to be included in the contraband category. Certain classes of goods, such as munitions, are obviously intended for war use and are known as absolute contraband, and certain other groups of commodities are clearly not of any immediate war value, but between these two groups there are large classes of articles which may or may not be so used, depending upon circumstances, and which are sometimes termed conditional contraband. From the time of Grotius attempts have been made in treatises, treaties and conventions to enumerate the articles in these several categories. For example, the Declaration of London of 1909 endorsed a list drawn up at the Hague Conference of 1907, specified munitions as absolute contraband, included food-stuffs, fuel, and clothing in the conditional contraband class, and specifically placed various other commodities, such as cotton and wool, on a free list. But such lists, if feasible at all, must necessarily change with circumstances, and during the World War, after numerous extensions of lists by the respective belligerents, the category of contraband became practically all inclusive. Without complete international agreement, and possibly even then, such inclusiveness is likely to continue, especially in view of the increasing extension of modern warfare beyond the field of military combat.

Convoy International law recognizes the right of convoy of neutral merchant ships by the war vessels of their respective governments, but this right has been little exer-

cised in modern times During the World War there was much convoying of troop ships and even of some merchant ships of belligerents, but little neutral convoying

Licenses to Trade A license may be given by a government to its own or other nationals, permitting them to carry on commerce in spite of the existence of war, this may be general, to all nationals, or special, to certain persons or for certain trades Such a license, while it may not alter the fundamental commercial rights of neutrals, may actually give neutral nationals an opportunity to trade where this might not otherwise be possible, the practice is perhaps best illustrated by the licenses granted by the British Government to certain American persons and companies during the earlier years of the World War.

Visit, Search, and Seizure. The doctrine of contraband also involves the processes of visit, search, and seizure, concerning which attempts have been made to formulate detailed rules of international law, but in which practices have varied Generally speaking it is established that a neutral vessel may be visited and searched with the observance of certain formalities and in such a way as to safeguard life and protect innocent goods, and that if the vessel carries contraband it may be seized and brought to port for adjudication before a prize court In the World War the United States, while still neutral, protested (October 21, 1915) against the failure of the British Government to confine the locality of search and seizure to the high seas Before 1914 it had also been recognized, even by the Declaration of London of 1909 (Article 49) that in certain exceptional cases, where to bring the neutral ship to port would involve danger to the war vessel captor, the neutral ship might be destroyed, but the abuse of this rule, particularly by German submarines, was protested by the United States, as on February 4, 1915, and

ultimately had much to do with America's entry into the war in 1917. The difficulty of using submarines, as destroyers of commerce without such abuse and without danger to the lives of neutral nationals, as mentioned above, has been the basis for attempts to outlaw all submarine activities of this sort.

Blockade In addition to its liability under the doctrine of contraband, neutral commerce is subject to the process of blockade. Hostile blockade is the obstruction of communication, usually by water, with a place in enemy territory, and the usual penalty for its violation is forfeiture of vessel and cargo. While customs vary, before 1914 the generally established rules of international law concerning hostile blockade were that it presupposes a state of war, must be declared by proper authority, must be the subject of notification to neutral states and their subjects, and with respect to both place and manner must be effectively maintained. The fundamental purpose of blockade, commercially to isolate the enemy, has caused it to be widely extended. During recent wars there were established various "defensive" or "strategic areas" and "mined areas," some of which were accepted as legitimate, but the undue extension of so-called "war zones" in which all neutral shipping would be summarily sunk was striking, and it was such an act which was the immediate cause of the breaking off of diplomatic relations between the United States and Germany on February 3, 1917, and which led to the American declaration of war on April 6, 1917.

Continuous Voyage The doctrine of continuous voyage has to do with activities of neutral merchant vessels and its general purpose is to prevent such vessels from escaping technical responsibility with respect to hostile destination by merely touching at a neutral port. Prior to 1914 there

were discrepancies between the views of various governments. The American interpretation had been rather extreme, particularly during the Civil War, and was indicated in a decision of an American court in the case of the *Stephen Hart*,¹⁷ in which it was held that if any part of a voyage is unlawful it is unlawful throughout, and that "the commerce is in the destination and intended use of the property laden on board of the vessel, and not in the incidental, ancillary, and temporary voyage of the vessel . . ." The interpretation by various other states has been less extreme and certain of them have refused to recognize the doctrine, but during the World War it was extended further than ever before. Even if it had not been so extended, the extension of other doctrines of international law and the establishment of trade control at strategic points of destination in important neutral regions probably would have had, in given cases, as much or more substantial effect.

Prize Courts Neutral merchant ships and goods seized for violation of the rules of war, as well as enemy merchant ships and goods, may be brought before a prize court for adjudication, and the possessor's title becomes complete if the decision of the court effects condemnation. Such a court cannot be set up in neutral jurisdiction, but may be established by a belligerent in its own territory or in territory where it has military jurisdiction or in allied territory, its constitution and even its procedure may vary according to municipal law, but the procedural methods are more or less similar in different countries. The Hague Conference of 1907 drew up a Convention, not subsequently ratified, for the creation of an International Prize Court.

¹⁷ Blatchford's *Prize Cases*, 387, 405, 407.

EXPORT AND IMPORT CONTROL

Aside from the ordinary peace-time control exercised by nations over international commerce under the legal power of their own municipal laws and in the effecting of their national commercial policies, the various states naturally also adopt, upon the basis of their respective municipal jurisdictions, stringent systems of war-time trade control which greatly supplement their interference with commerce under the so-called laws of nations. This type of control often in fact extends into neutral jurisdiction, and is at least as important in actual commercial effect as the control described above and recognized as a part of international law. Thus during the World War the Allied and Associated Powers maintained an elaborate system of trade control,¹⁸ by which they not only refused to permit clearances of goods destined immediately for the enemy but also carefully restricted shipments to neutral countries of goods that might pass on to the Central Powers and even of goods, such as feedstuffs for cattle, that might be used in the production of other commodities which in turn might be shipped to the enemy. Somewhat similar measures were adopted by the Central Powers, but to a much less important degree since their available exports were much more limited. These trade control systems, except as they utilized blockade, involved international law very little if at all. Rather they were within municipal competence, supplemented in several instances by negotiations culminating in the so-called trade agreements with the neutrals. The fact that this type of war-time trade control, especially after the entry of the United States, proved much more effective during the World War than any measures resting upon doctrines of inter-

¹⁸ Cf. U. S. War Trade Board, *op. cit.*

national law, is one of the many illustrations of the greater efficacy of measures within municipal legal competence than of those within the field of the so-called law of nations

THE ESTABLISHMENT OF INTERNATIONAL LAW

Practically all of the rules of international law referred to in the foregoing paragraphs not only have been discussed and interpreted by publicists and municipal courts from the time of Grotius or before, but also have been the subject of special treaties, of consideration by international conferences, and of international declarations and conventions. Within recent times the latter have been especially typified by the "First International Peace Conference" (Hague) of 1899, the Second Hague Peace Conference of 1907, and the International Naval Conference at London which drew up the so-called Convention of London of 1909. Subsequent conferences, such as the Paris Peace Conference and the Washington Conference on the Limitation of Armaments, have touched upon those rules, but have dealt more with what might be termed world politics than with international law. The various conventions, however, have attained much less than universal ratification, even among the powers active in their formulation, and the very general departure from even those customs which had been considered fairly generally accepted, notably during the World War, has both retarded the full establishment of such rules of international law and demonstrated the almost insuperable difficulties of their establishment, observation, and enforcement.

INTERNATIONAL LAW AND COMMERCE

Needless to say, the foregoing consideration of the principal points involved in certain pertinent aspects of international

law is in no sense intended as an exposition, from a legalistic point of view, of those aspects of that body of law — if it may be termed law rather than a collection of attempted rules. It has been included in order to present a more detailed account of the economic aspects of, that is, specifically of property and contract at, international law, than could be given in mere generalization. It is doubtless sufficient to afford a basis for certain general observations from the viewpoint of the present study.

These observations may be enumerated as follows (1) Much of international law concerns property, private as well as public. (2) Nations at war make the struggle an economic as well as a military one, and probably tend to do so more and more, bending every possible effort toward the economic reduction of the enemy. The partly economic character of modern warfare, while generally known, is peculiarly disclosed in the fact that the rules of international law — rules applying in practice much more to international dispute and conflict than to peaceful relations — in so many instances have to do with property as well as with immediate military procedure. (3) The efforts, however unsuccessful, toward the establishment of these rules as a body of true law, have represented in part an endeavor to confirm the inviolability of property as well as the sanctity of life wherever possible from the viewpoint of the necessities of actual combat. This endeavor has not been entirely futile, for there probably has been at least some measure of refinement from the economic and personal ruthlessness of ancient warfare. (4) To the extent that these particular rules have been partly established there has been a tendency in times of conflict toward somewhat greater mutual respect for economic interests and respect for economic interests of neutrals. That is, formulation of law has been influenced

by economic fact and economic concord (5) In general, however, the centuries-old attempt to establish international law, as law, has been far from completely successful as yet, and has received striking set-backs in recent years (6) The great hazards to which international commerce, of belligerents and even of neutrals, is subjected in time of international conflict are most significant, particularly in view of the fact that there are comparatively few intervals in which such conflict is not in process in greater or less degree in some part of the world Nevertheless, world commerce steadily continues in large volume in the face alike of such hazards and lack of legal protection and of the numerous non-hostile restrictions embraced in the tariff and other commercial policies of nations (7) Above all, the rules of international law, whether considered to be established or not are largely of a negative character They have much concern with property in time of conflict or dispute and little concern with the commercial processes of peace It is these peaceful commercial processes that are much the most significant thing in international economic relations The surprising fact, therefore, is not that international law has not done more to safeguard commerce, but that such commerce continues in spite of the hazards and lack of complete legal protection In short, from this viewpoint as from others, despite dangers and disputes and insecurity, world commerce perennially flows on In emergencies it may be partly stopped or destroyed or diverted by military combat and political conflict, but seldom wholly so, and flowing over barriers it tends to resume its natural geographic and economic course.

INTERNATIONAL ECONOMIC RELATIONS AND
MUNICIPAL LAW

The question of the relation of international commerce and law suggests also the matter of municipal law, which may be touched upon from the viewpoint of the present study

However much international law proper, or so-called public international law, may affect private property and contract and international commerce both indirectly and directly, it is obvious that such commerce, especially in its normal, peace-time processes, is much more frequently, minutely, and intimately affected by the national legal systems of the countries immediately concerned in given transactions

Without attempting to analyze and compare the detailed principles of these various systems of commercial law,¹⁹ the generalization may be made that some of these systems are more conducive to international industrial and commercial relations than others, and that a similarity between such systems in two given countries, such as England and the United States, may considerably facilitate commerce between those two countries

Doubtless the broadest distinction among the commercial laws of Occidental countries is that between what are sometimes referred to, respectively, as the Anglo-Saxon legal systems and the legal systems based upon the Code Napoleon. In the former, there are the two main codes and corresponding types of courts, the civil and the criminal. In the latter there is usually a third distinct code, the commercial code, with a corresponding category of courts, the commercial courts.²⁰ England and the United States furnish

¹⁹ *Wade* U. S. Department of Commerce, *Commercial Laws of England, Scotland, Germany, and France*, by Wolfe, A. J., in collaboration with Borchard, E. M., 1915, Special Agents Series No. 97

²⁰ For a brief description of these systems from the practical view-

examples of the former, and France, Spain, and many countries of Latin America such as Argentina, Cuba, Paraguay Uruguay Honduras and Guatemala, of the latter. Germany Austria, and the Scandinavian countries are sometimes cited as among the latter class, though with a different type of commerce laws, this classification is perhaps questionable, and in any event, such courts as the 'industrial' courts and the 'commercial' courts set up in Germany for the adjudication of disputes between employers and employees are to be carefully distinguished from the true commercial courts of certain Latin countries, the 'commercial chambers' of the superior courts being more analogous to the latter²¹ but without a sharply differentiated commercial code

Some of the general characteristics of the commercial code and commercial court system may be indicated as follows (1) Commerce courts have a registry office where individuals, firms, and corporations, whether domestic or foreign, which carry on or intend to carry on business activities within a certain area are compelled by law to register, and in some instances to file periodical business reports and sworn statements concerning financial status (2) Fre-

point of foreign business code Savay, N., *Principles of Foreign Trade*, N Y, 1919, pp 316-325 Detailed information on the law of a particular country on a given commercial matter is published from time to time by the Division of Commercial Laws of the U S Department of Commerce, in the weekly *Commerce Reports* or in pamphlet form For a comprehensive compilation, vide *The Commercial Laws of the World, comprising the mercantile, bills of exchange, bankruptcy and maritime laws of all civilized nations, together with commentaries on civil procedure, constitution of courts, and trade customs, in the original languages interlarded with an English translation* (32 vols, American edition pub by Boston Book Co, Boston), Sir Thomas E Scrutton, Consulting Editor, William Bowstead, General Editor, also brief digest of laws of leading countries in *Marquandale's American Law Directory* (annual, since 1868), N Y

²¹ Cf U S Department of Commerce, *op cit*, pp 24-68

quently the requirements for a foreign corporation intending to begin such operations include the filing of a certificate of incorporation verified by a consular or diplomatic officer, minutes of the first meeting, proof that the capital required to be "paid in" has been so paid, and proof that notice of registration has been published in the local press (3) A permit or license to do business is issued by the registry office (4) In some cases the keeping of a certain number of books, with prescribed methods, is required (5) Commercial laws, such as bankruptcy and many other laws concerning the obligations of one business enterprise toward others, are frequently stricter in such countries, and in general business there is often more closely supervised by the government (6) This system of registration and direct supervision in some ways impedes the activities of foreign business, but it has the advantage of protecting both the registrant and other parties by giving notice of existing status, of partly preventing fraud and, as in giving foreign creditors equal status with domestic creditors, of tending to place foreign business on a basis of certainty and equality at law On the other hand, Anglo-Saxon legal systems are at least as highly developed in their definite treatment of property and contract, whether foreign or domestic

Observations may be summarized as follows (1) It is obvious that the private commercial laws of the various individual countries touch international commerce more intimately and more generally than does international law (2) While in a sense their effect is negative, applying primarily in matters of difficulty as in cases of dispute concerning fulfillment of contract, this effect is less negative than that of international law since it occurs in the process of normal, peace-time, private economic transactions rather than in the process of national conflict, and in many ways

assists such transactions. (3) It is probably true that some systems of municipal commercial law are more conducive than others to such commercial relations. (4) In many ways this is particularly true of the systems which involve a distinct commercial code and separate commercial courts, because of the certainty and the definite fixing of mutual business obligations among both domestic and foreign enterprises in such jurisdictions. In other ways the encouragement to commercial transactions is probably greater where there is the greatest similarity in systems of commercial law as between two given countries for example, as between England and the United States. (5) In general the greatest assistance is indirectly given to international business in all those instances where the national systems of commercial law make most definite provision for the legal status of such business and therefore place it upon a basis of certainty and stability in its rights and obligations. (6) The necessities and conveniences of private international economic transactions have resulted, not only in considerable development of a definite and non-discriminating legal status for foreign enterprise and for domestic enterprise carrying on foreign business at municipal law, but also in some growth, out of the conflict of such laws, of mutual recognition of legal systems in cases where domicile and location of property and place of conclusion or performance of contract involve more than one national jurisdiction — that is, in a growth of so-called private international law, which may next be observed.

INTERNATIONAL ECONOMIC RELATIONS AND THE CONFLICT OF LAWS

International law proper, or as it is sometimes termed, public international law, deals or is assumed to deal exclu-

sively with the relations of states one with another, as has been indicated in the preceding paragraphs. There is also a body of rules variously referred to by the terms private international law or "the conflict of laws"²². A number of legal authorities have been unwilling to employ the former term, holding that international law is entirely and per se public, and that all cases of purely private international adjudication simply fall within the field of conflict of municipal laws, or, expressed positively rather than negatively, of international legal comity or reciprocity. However one of the most highly recognized authorities on the subject has expressed the opinion that it may well be called private international law²³. While public international law deals with the relations of states with each other, this so-called private international law has to do with the individual relations of nationals, that is, of citizens and subjects of one state with those of another. It is obvious that it is of not inconsiderable economic importance.

²² For a short summary of this branch, *vide* Davis, George B, *op cit*, pp 181-189. For fuller treatment, *vide* (a) Story, Joseph, *Commentaries on the Conflict of Laws*, 1841, 3d ed, edited by Biglow, M M, 1883, esp pp 315-532 on foreign contracts, pp 533-590 on personal property, and pp 591-640 on real property, (b) Wharton, Francis, *A Treatise on the Conflict of Laws or Private International Law*, 3d ed, by Parmele, Geo H, Rochester, 1905, 2 vols, esp, Vol I, Chap VII, pp 606-848 on "the law of things" and Vol II, Chap VIII, pp 858-1272 on obligations and contracts (Page references given particularly to economic aspects). For a treatment with special reference to commercial law, Masse, M G, *Le Droit Commercial dans ses rapports avec le Droit des Gens et le Droit Civil*, 3rd ed, Paris, 1874. For treatment with special reference to English law, Dicey, A V, and Keith, A Berriedale, *A Digest of the Law of England with reference to the Conflict of Laws*, 3d ed, London, 1922, esp Book III, pp 572-660, on Contracts, and pp 539-571, on Property.

²³ Story, Joseph, *op cit*, pp 9-10. It should be noted, however, that this authority does not place it in contradistinction to public law, but refers to it as a branch of public law, although this involves a certain contradiction of terms.

THE GENERAL NATURE OF PRIVATE INTERNATIONAL LAW

The general nature^{2*} of this may be broadly summarized as follows: (1) It is far from fully established as a true body of law of universal and uniform acceptance, but there is apparently a growing tendency toward its establishment, for the sake of convenience, especially as normal international industrial and commercial intercourse increases in volume and complexity. (2) It derives its force from the sovereignty of the states which administer it. (3) It is, therefore, in a sense merely a subdivision of municipal (or national) law, in England and the United States it has sometimes been referred to as a part of the common law. (4) Viewed in one way it is less substantive than procedural, that is, consists of rules determining the circumstances under which the law of another country will be applied in a given country. However, to the extent that it consists of the actual principles of the law of one country applied in another, it is substantive, and it is in this latter sense especially

^{2*} "Modern legislation in dealing with purely private relations is more anxious to give effect to those relations as they really are, or as it is conceived that they ought to be, than to affirm the exclusiveness of the rights of sovereignty, and there are many cases in which this object is best attained by allowing the law of the country to which a foreigner belongs to operate in all or the local law, or by allowing a subject to be affected by a foreign instead of his national law, when the two are in conflict. The concessions and relaxations of sovereign rights which it has become customary for civilized nations to make for these reasons have given rise to a body of usage of considerable bulk, called private international law. Private international law is not, however, a part of international law proper. The latter, as has been seen, is concerned with the relations of states, in so far as individuals are affected, they are affected only as members of the state. Private international law, on the other hand, is merely a subdivision of national law. It derives its force from the sovereignty of the states administering it, it affects only the relations of individuals as such, and it consists in the rules by which courts determine within what national jurisdiction a case equitably falls, or by what national law it is just that it shall be decided."—Davis, George B., *op. cit.*, p. 181, quoting Hall, *op. cit.*, par. 10, p. 54.

that it is said to be a subdivision of municipal law (5) It is not obligatory, but is purely voluntary, which gives rise to the application to it of the term "international comity" (6) At best it is only applied in a given country when not incompatible with the legal system and public policy of that country ²⁵ (7) Although dealing also with such matters as personal relations, it is greatly if not largely concerned with legal questions involved in private international economic relations, that is with various phases of property and contract Some of these characteristics may be considered somewhat more fully

ITS PROBLEMS

The problems of private international law may be summed up as follows (1) Recognition of a country's own laws or the laws of other countries Rights may have been acquired at home or abroad (2) Determination of place of domicile At least as many as three countries may be concerned for an individual may be a citizen or subject of one country, may be temporarily living in the country where he seeks remedy, and may have permanent domicile in a third country (3) Determination of place of action Two or three jurisdictions may be involved, since part of the transaction may have occurred in one country and another part in another, and litigation may occur in a third Even more complicated cases than these may arise Expressed another way, the three major problems of private international law are (1) law of country, (2) jurisdiction, and (3) choice of law ²⁶ In view of these problems, that is, in view of the fact

²⁵ It is scarcely necessary to point out that in this as in other respects it is fundamentally different from extraterritoriality, which is essentially an extension of the legal system of one country to cover its citizens or subjects in another country *Re* extraterritoriality, *vide* later chapters.

²⁶ Cf Dicey, A V, *op cit*, introductory outline

that private international law is essentially a conflict of laws, it is significant that progress has been made in its development by various countries, a progress clearly based upon the necessity of giving at least a limited amount of legal assistance to the growing volume of private international intercourse with its inevitable cases requiring adjudication

ITS SUBJECTS AND RULES

A somewhat more complete idea of the content and status of the "conflict of laws" may be obtained by briefly noting its main outlines

The principal subjects treated of in private international law have been enumerated as follows ²⁷

(1) The legal status of aliens, and their capacity to do certain acts in a state not in accordance with its municipal law, but in accordance with the municipal law of another state

(2) Questions as to the validity of foreign marriages and divorces.

(3) Questions as to the validity or binding force of contracts or agreements

(4) Questions concerning ownership or transfer of land and goods

(5) Bankruptcies

These disclose its largely economic character

As to recognition and enforcement of foreign judgments, most states give effect to them under the following conditions ²⁸

(1) The tribunal which pronounced the judgment must have been competent according to the law of the state to which it belonged, to decide upon the matter under adjudication

(2) The jurisdiction must have been complete as to subject matter and over the parties to the suit.

²⁷ DAVIS, Geo B, *op cit*, p 185 (paraphrasing)

²⁸ *Ibid*, p 187 (paraphrase)

(3) The foreigner who was a party must have been fairly heard before the tribunal, according to the laws of the state, and on an equality, in every respect, including the right of appeal, with a native subject

(4) The tribunal must have decided upon the very subject matter of the litigation, and the decision must have been final, or made by the court of last resort

The principles followed, while necessarily not clearly and uniformly defined, have been enumerated substantially as follows ²⁹

(1) Laws destructive of capacity are disfavored, and those protective of capacity are favored, internationally. An example of the former would be those recognizing slavery

(2) Persons are in general subject to the law of their domicile "but when visiting other lands, they can only claim to be invested with the law of such domicile to the extent which is consistent with the law of Christendom, which is the foundation of private international law"

(3) In matters relating to a decedent's estate, except realty, the law of the last domicile of the decedent is to prevail

(4) Property, real or personal is subject to the *lex loci sitae*

(5) Contracts as a general rule are governed by the *lex loci solutionis* (this generalization may be made only on the assumption that the majority of such contracts are to be performed elsewhere than in the country where made, otherwise the *lex loci contractus* governs) ³⁰

Of all these matters, no doubt international private contracts are the most important in the international business relations of industry, trade, transportation, and finance. The status of contract has been pithily expressed by Story ³¹ in this language "Generally speaking the validity of a contract is to be decided by the law of the place where it is

²⁹ Ibid., p. 186 (paraphrase)

³⁰ Terms: Law of domicile = *lex domicilii* Law of location (of property) = *lex loci sitae* or *lex situs* Law of place where contract is made = *lex loci contractus* Law of place of (contract) performance = *lex loci solutionis*

³¹ *Op. cit.*, p. 325

made, unless it is to be performed in another country, for, as we shall presently see, in the latter case, the law of the place of performance is to govern."²

On the various matters under discussion here, the following synopsis given by Dicey, *op cit*, Bk I, pp xli-xlii, of the status of private international law in the English legal system, is of illustrative interest

Jurisdiction and Choice of Law

I Any right which has been duly acquired under the law of any civilized country is recognized and, in general, enforced by English courts, and no right which has not been duly acquired is enforced or, in general, recognized by English courts

II English courts will not enforce a right otherwise duly acquired under the law of a foreign country —

- A Where the enforcement of such a right is inconsistent with any statute of the Imperial Parliament intended to have extra-territorial operation,
- B Where the enforcement of such a right is inconsistent with the policy of English law, or with the moral rules upheld by English law, or with the maintenance of English political institutions,
- C Where the enforcement of such a right involves interference with the authority of a foreign sovereign within the country whereof he is sovereign

Jurisdiction

III The sovereign of a country, acting through the Courts thereof, has jurisdiction over one, has a right to adjudicate upon) any matter with regard to which he can give an effective judgment, and has no jurisdiction over one, nor a right to adjudicate upon) any matter with regard to which he cannot give effective judgment

SUMMARY.—When with regard to any matter . . . the Courts of no one country can give a completely effective judgment, but the Courts of several countries can give a more or less effective judgment, the Courts of that country where the most effective judgment can be given have a preferential jurisdiction

IV The sovereign of a country, acting through the Courts thereof, has a right to exercise jurisdiction over any person who voluntarily submits to his jurisdiction, or, in other words, the Courts of a country are Courts of competent jurisdiction over any person who voluntarily submits to their jurisdiction

Choice of Law

V The nature of a right acquired under the law of any civilized country must be determined in accordance with the law under which the right is acquired

VI Whenever the legal effect of any transaction depends upon the in-

THE CONFLICT OF LAWS AND INTERNATIONAL COMITY

The fact needs emphasizing that private international law arises out of the conflict of national laws and is essentially a matter of reciprocity, or, more strictly speaking, of voluntary consent of any given country. Wharton³³ distinguishes between comity of sovereignty and comity of courts, infers that private international law rests upon the former rather than the latter and apparently prefers to consider such law most strictly as a subdivision of municipal law rather than as a matter of comity. He says "It is natural, also, for a judge, in giving an opinion admitting foreign law as binding, to say that there is a 'comity' between civilized states which leads them reciprocally to adopt each other's rulings. But when we ask why is this 'comity' regarded as ruling a case in an English or American court, the answer is 'because this is required by the common law', and if we ask why it is required by the common law, the answer is, that the law of nations is a part of the common law, and private international law is a part of the law of nations."

Such a view may be conducive to a more definite estab-

ment on the part of the party or parties thereto, as to the law by which it was governed, then the effect of the transaction must be determined in accordance with the law contemplated by such party or parties.

Dicey also states, Bk. III, pp. 609-610, the following rules concerning the law of contract, that is, presumptions as to "the proper law of contract" (the law under which its interpretation and obligation are to be determined): "1. *Prima facie* the proper law of contract is presumed to be the law of the country where the contract is made (*lex loci contractus*), this presumption applies with special force when the contract is to be performed wholly in the country where it is made, or may be performed anywhere, but it may apply to a contract partly or even wholly to be performed in another country. 2. When the contract is made in one country, and is to be performed either wholly or partly in another, then the proper law of contract, especially as to the mode of performance, may be presumed to be the law of the country where the performance is to take place (*lex loci solutionis*).

³³ *Op. cit.*, Vol. I, p. 5-6

lishment of private international law, but of course cannot obscure the fact of its voluntary character. Story has said "On the contrary every nation has an exclusive right to regulate persons and things within its own territory, according to its sovereign will and public policy" ³⁴ He further states "Now this demonstrates that the doctrine [of recognition of foreign laws] owes its origin and authority to the voluntary adoption and consent of nations. It is therefore in the strictest sense a matter of comity of nations, and not of any absolute paramount obligation superseding all discretion on the subject" ³⁵ The Supreme Court of the United States has expressed the doctrine in the following language:

No law has any effect of its own force, beyond the limits of the sovereignty from which its authority is derived. The extent to which the law of one nation as put in force within its territory, whether by executive order, by legislative act, or by judicial decree, shall be allowed to operate within the dominion of another nation depends upon what our greatest jurists have been content to call "the comity of nations." Although the phrase has been often criticized, no satisfactory substitute has been suggested.

Comity, in the legal sense, is neither a matter of absolute obligation on the one hand nor of mere courtesy and good-will upon the other. But it is the recognition which one nation allows within its territory to the legislative, executive, or judicial acts of another nation, having due regard both to international duty and convenience and to the rights of its own citizens or of other persons who are under the protection of its laws.

THE ESTABLISHMENT OF PRIVATE INTERNATIONAL LAW

While private international law like public international law proper, is far from universally and uniformly established, and while by its very nature it is difficult of stand-

³⁴ *Op. cit.*, p. 25

³⁵ *Ibid.*, p. 34

³⁶ *Hilton vs. Guyot*, 159 U. S. 113 (decided in 1895)

ardization, nevertheless it has gained a considerable and apparently increasing measure of recognition. One writer has said. "Its progress has not been rapid at any time, though an increased interest in it has been manifested since the beginning of the present century, and all states that are parties to international law now recognize its rules, and, to a greater or less extent, permit their courts to apply them in the decision of cases arising within their jurisdiction. Their practice is far from uniform, however, some states being slow to recognize their binding force, while others constantly seek to extend their field of operation, at times going so far as to negotiate treaties for that purpose. The tendency of all modern states is in the same direction, though some more rapidly than others" ³⁷

In *Hilton vs Guyot*, the case cited above, the United States Supreme Court said

International law, in its widest and most comprehensive sense — including not only questions of right between nations governed by what has been appropriately called the law of nations, but also questions arising under what is usually called private international law or the conflict of laws, and concerning the rights of persons within the territory and dominion of one nation, by reason of acts, private or public, done within the dominions of another nation — is part of our law, and must be ascertained and administered by the courts of justice, as often as such questions are presented in litigation between man and man, duly submitted to their determination

The most certain guide, no doubt, for the decision of such questions is a treaty or a statute of this country but when, as in the case here, there is no written law upon the subject the duty still rests upon the judicial tribunals of ascertaining and declaring what the law is, whenever it becomes necessary to do so, in order to determine the rights of parties to suits regularly brought before them. In doing this the courts must obtain such aid as they can from judicial decisions, from the works of jurists and commentators, and from the acts and usages of civilized nations. *Fremont*

³⁷ *Davis, Geo B, op cit, p 185.*

vs 'U S 17 How 542, 557, The Scotia, 14 Wall 170, 188, Respublica vs DeLongchamps, 1 Dall 111, 116, Moultrie vs Hunt, 23 N Y 394, 396

* PRIVATE INTERNATIONAL LAW AND COMMERCE

To what has been stated above little need be added to show the relation of private international law and commerce. That relation may be epitomized as follows (1) Out of the conflict of municipal laws in their application to private international transactions has grown a body of rules which, though far from universally accepted or standardized, have found a considerable measure of recognition, there is some justification for calling this body of rules private international law to distinguish it from those rules applying, at least in basic legal concept, exclusively to the relations of states (2) While these rules have to do with other matters also including purely personal affairs of a non-economic nature, they are considerably if not largely concerned with property and contract, that is with the politico-economic institutions underlying commerce and international economic intercourse in general (3) The rules of private international law are not compulsory from the viewpoint of sovereignty: that is, their acceptance does not result primarily from any fundamentally compelling political or legal doctrine (4) Rather does it result when there is acceptance from the pressure of commercial and other practical convenience Story says ³⁵ 'The jurisprudence, then, arising from the conflict of the laws of different nations in their actual application to modern commerce and intercourse, is a most interesting and important branch of public law To no part of the world is it of more interest and importance than to the United States This branch of public law may therefore be fitly denominated private in-

³⁵ *Op cit*, pp 9-10

ternational law, since it is chiefly felt in its application to the common business of private persons, and rarely rises to the dignity of national negotiations, or of national controversies." And again ³⁹ "The true foundation on which the administration of private international law must rest is, that the rules which are to govern are those which arise from a mutual interest and utility, from a sense of the inconveniences which would result from a contrary doctrine . . ." Indeed, if there were not some degree of such legal comity it is likely that international commerce, although it would still exist in large measure, would be more handicapped than it is at present, commercial necessity and convenience have contributed greatly to the growth of that comity (5) It is likely that such comity will continue to increase, in view of the continued growth of international commerce, particularly among countries such as England and the United States and other leading commercial countries which alike carry on such a large proportion of world commerce and have progressed so considerably in the recognition of foreign municipal law in certain classes of cases in their own judicial processes and thus have contributed to the development of private international law

EXTRA-LEGAL ADJUDICATION OF INTERNATIONAL ECONOMIC DISPUTES

Finally, the subject of the relation of legal systems and international commerce cannot be concluded without mention of extra-legal adjudication of international commercial disputes. Technically, such adjudication falls within two categories, that is, (a) where a government assists, more or less unofficially, in the adjustment, and (b) where the adjustment is effected through the agency of some organization

³⁹ *Ibid*, p 33

which is non-governmental though frequently public in its nature.

The former may be illustrated by describing a typical case in the trade dispute work of the United States Government. A foreign importer receives a shipment of goods from an American exporter and believes that the exporter has not conformed to the express or implied contract, involved perhaps in a simple purchase order. The shipment, for example, may consist of a number of automobiles delivered with left-hand driving apparatus when the importer believed that right-hand drive had been specified in order to meet the traffic requirements of his country. The importer lays the matter before an American Consul in his city, who forwards a report of the matter to the State Department at Washington. This department refers the matter to the Bureau of Foreign and Domestic Commerce of the Department of Commerce, which in turn notifies its domestic District Office nearest to the place of business of the exporter. The manager of that office discusses the matter with the exporter and obtains his views in the dispute. The case may prove to be such that the exporter is clearly wrong and immediately agrees to adjust the matter. Otherwise his side of the case is reported by the district office manager to his department, and this report is forwarded through the State Department to the Consul, who again discusses the matter with the importer. By this process, repeated if necessary, the dispute may be settled, through adjustment made by either party or through a compromise. The reverse of this process may also occur, that is, the case may be one of dissatisfaction and inauguration of the negotiations on the part of the exporter, who may not obtain satisfaction and may ultimately institute legal proceedings in the foreign country after selecting counsel there from a list furnished

by the Consul, but who, on the other hand, as a result of these informal negotiations may decide he is in the wrong or may obtain satisfaction or compromise of his "case" from the foreign importer⁴⁰

The entire process is informal and in a sense unofficial, and may be likened partly to the familiar domestic process of "settlement out of court," although it is in a way less formal even than that, since it may not reach the stage of employment of counsel. It is more truly a process of mediation with government officials offering "good offices" in an essentially extra-legal adjustment of private international commercial disputes.

A further step away from the formal legal method of settlement of such disputes is found in a somewhat similar process encouraged and assisted by public but non-governmental bodies, namely local, national and foreign chambers of commerce. This method sometimes though not always has been promoted by the negotiation of international agreements or treaties by chambers of commerce for that purpose. Its adoption has made some progress in the relations of the United States and Latin American countries and it is the basis of a system created by the International Chamber of Commerce, which has national sections in various countries and headquarters in Paris.⁴¹ It is in the development of such methods for stabil-

⁴⁰ To an increasing extent the foreign representatives of the Department of Commerce (Commercial Attaches and Trade Commissioners), as well as Consuls, function in this process, thus expediting the procedure by more direct handling.

⁴¹ The Oxford University Press, American Branch, has recently announced the publication by the American Arbitration Association of the fifth *International Yearbook of Civil and Commercial Arbitration*, an account of the commercial arbitration laws, practice, and proceedings in a number of leading countries, and a *Handbook on International Arbitration*, containing "data and material on arbitration practice and procedure in foreign countries as reported upon by the National Committees of the

izing and furthering international commerce that there appear large opportunities for useful service by the International Chamber. This method of settlement of trade disputes is the last step away from formal procedure, in the direction of the simple, entirely informal agreement without recourse to laws, organizations, or third parties, which doubtless characterizes the majority of cases of dispute in the individual transactions that constitute a large proportion of international economic processes.

THE LEGAL FACTOR IN INTERNATIONAL ECONOMIC RELATIONS

This consideration of the legal factor in international economic relations may be summed up by observing, (1) that public international law has much to do with economic intercourse and affects it considerably, and in turn shows some tendency to yield to economic necessity in so far as

International Chamber of Commerce," "being prepared by the International Chamber of Commerce."

NOTE — Organization for commercial arbitration, in the United States and internationally, may be summarized as follows:

I. THE AMERICAN ARBITRATION ASSOCIATION, formed January 29, 1926, a consolidation of the Arbitration Society of America, Inc., the Arbitration Foundation, Inc., and the Arbitration Conference. It has (1) an Arbitration Committee, (2) a Committee on Arbitration Law, (3) various divisions for the general promotion of commercial arbitration, (4) various divisions (I, II, III, etc.) for arbitration in specific industries and trades. *See the Association's Yearbook on Commercial Arbitration in the United States*, 1st edition 1927, Oxford University Press, American Branch.

II. THE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA, formed in 1913. (1) It has facilities for domestic commercial arbitration, and has adopted (1924) a *Code of Principles for Business Conduct*. (2) At the first Pan-American Financial Congress, 1915, a plan was prepared for arbitration of disputes in trade between the United States and Argentina. At a meeting of the Inter-American High Commission, 1916, this plan was declared operative. Under it, the Chamber of Commerce of the United States and the Bolsa de Comercio of Buenos Aires each established a committee on arbitration and an official list of arbitrators, with binational participation, business men, in transactions between the two coun-

permitted by military exigency, (2) that legal systems of various countries necessarily affect, to some extent, impede, but also to some extent have been so developed as to conduce to, such economic relations, (3) that private international law results in considerable measure from economic necessity in international relations, (4) that extra-legal adjudication of international economic disputes, which is created entirely for such purposes, has recently tended to develop and (5) in general that the normal process of international economic intercourse is frequently helped though sometimes hindered, by law, that it naturally contributes to the molding of law, and that to a considerable extent, with or without legal assistance, it continues as a natural process

tries, were urged to insert a standard arbitration clause in their contracts (3) Negotiations have also been carried on with organizations in Brazil, Ecuador, Panama, Paraguay, Uruguay, Venezuela, and Colombia (4) The Chamber of Commerce of the United States has published brochures on the subject, e.g. *A Plan for Commercial Arbitration*, *A Code of Principles of Ethics for Arbitrators*, and *An Agreement for Arbitration for Disputes in Trade between the United States and the Argentine Republic* (5) It cooperates with the International Chamber of Commerce in matters of commercial arbitration

III THE INTERNATIONAL CHAMBER OF COMMERCE, organized 1920, has a system for international commercial arbitration (1) It has a Court of Arbitration, with 8 to 10 nationals from each member country, this court does not try cases, but supervises arbitrations and appoints arbitrators (2) It recommends the insertion in contracts in international transactions of a clause providing for arbitration according to the rules of the Court of Arbitration of the Chamber (3) It also has a system for international commercial conciliation, which may be used before resort is had to arbitration (4) It has developed *Rules of Procedure for International Commercial Conciliation*, and *Rules of Procedure for International Commercial Arbitration* (5) Its publications include Brochure No. 21, *Rules of Conciliation and Arbitration*, Digest No. 3, *International Commercial Arbitration*, (by Young, Owen D.), Digest No. 47, *Commercial Arbitration and the French Law*, (by Maillard, G.), Digest No. 27, *The Future of Arbitration*, (by Street, Raymond) It also issues, *Handbook on International Arbitration*, and *International Yearbook of Civil and Commercial Arbitration*

• NB For further data and references on international commercial arbitration, *vide* Appendix, *infra*

CHAPTER V
THE TERRITORIAL FACTOR
THE COLONIAL SYSTEM AND ECONOMIC
IMPERIALISM

THE VARIOUS nations of the world present the most striking contrasts in area and these differences, together with the accompanying variations in amount and kind of resources and in other phases of the environmental premises, undoubtedly help to account for differences in economic success, as comprehended in what has been said above concerning the geographic factor in international economic relations and as will appear more fully from subsequent chapters dealing with the international distribution of resources

But contrasts in resources are very different from comparisons in totals of square miles, and mere possession of large area within the boundaries of a nation appears to have afforded far less advantage than possession of such resources and existence of climatic and other geographic as well as racial conditions conducive to economic progress. Indeed, it would appear that when these latter conditions have been suitable, smallness of national area has proved to be either a negligible handicap or an actual stimulus to economic development by means of extra-territorial aggression and, specifically, to the building of empires. Thus some of the

territorially smallest nations of modern times have developed the largest colonial systems, while some of the largest nations, lacking the necessity of going beyond their own borders for economic expansion, have acquired few if any colonial possessions. France, Germany, Portugal, Belgium, the Netherlands, Italy, Spain, and Japan are much smaller than many other countries, yet they have possessed themselves of more or less sizable colonial territories, of total square mileages varying from half to several times that of the "home" territory, and the United Kingdom, with an area substantially less than that of France, Germany, or even Japan,¹ has acquired the vastest empire known to the modern world, one upon which it is the familiar boast that the sun never sets. Among the large countries of the world, Argentina, Brazil, Canada, China, British India, Russia and the United States² are typical, and of these Canada and India are parts of the British Empire. Despite the undoubted importance of all of these regions, only the United States takes rank generally as one of the economic powers and as a colonial power in particular, and its colonial possessions are relatively small. In explaining therefore, the large place of a nation in the world's production and exchange, and its economic influence, it is insufficient to say simply that that nation has a large area. There seems to be little direct relation between national size and the sum total of national economic activity.

However, the system by which a number of relatively

¹ Total square miles of area, per *U. S. Statistical Abstract*, 1923, pp. 850 *et seq.* France, 212,736, Germany, 182,264, Portugal (incl. Madeira & Azores), 33,501, Belgium, 11,753, Netherlands, 13,205, Italy, 119,991, Spain, 195,041, Japan (excluding Formosa and Sakhalin, including Pescadores), 127,698, United Kingdom, 121,438.

² Total square miles of area, per same source. Argentina, 1,136,137, Brazil, 3,145,550, Canada, 3,729,665, China, 4,285,352, British India, 1,802,577, Russia, 8,067,766, United States (including Alaska, Hawaii, and Porto Rico), 3,627,557.

small but economically active countries have reached out beyond their own borders to acquire some form of territorial control with which to supplement their intensive domestic economic development is a most basic factor in international economic relations. The so-called colonial system, involving non-contiguous territorial possessions and other areas which though not owned are in some manner controlled for economic purposes, is recognized as one of the outstanding phenomena in the modern history of nations, but its fundamentally economic character and its exact extent and economic significance have not always been delineated and fully recognized in the past. It is a striking fact that nearly one-half of the world's land area consists of colonies³ and there can be no doubt that a number of leading nations in modern history while of course using various methods for the aggrandizement of their industries, shipping, and finance, have found in the process of colonial acquisition, together with the related process of attaining commercial domination over countries which may not be strictly classified as colonies, a most convenient and basic device for the extension of their control over world resources and world markets. It is, therefore, of primary interest and importance to suggest and briefly answer the question as to the extent and manner in

³ U. S. Tariff Commission, *Colonial Tariff Policies*, 1921, p. 1. (A highly valuable compilation on this subject, data and classifications from which have been used in a number of the sections of this chapter, as indicated. It should be especially noted that many of the statistics contained in that compilation, and cited in several subsequent sections of this chapter, such as those on proportions of colonial territory to territory of colonial powers and on imports and exports of the colonies in proportion to the external trade of the colonial powers, are not up-to-date. It is much to be regretted that later official compilations adaptable to the particular purposes of the present chapter are not available. These earlier statistics, however, are cited here with the frank recognition of their chronological limitations, but in the belief that they are "better than none at all" and that after all they are of considerable usefulness in illustrating the principal points developed in the present discussion.)

which this has been accomplished, as well perhaps as to touch upon the arguments for and against a justification of the entire system. This may be done under the following captions: territorial jurisdiction of states, acquisition of territory; colonies, protectorates, spheres of influence and interest, and mandates, distribution of colonial ownership, economic types of colonies, the economic value of colonies, their place in world commerce, economic colonial policies; and, in general, the colonial system and economic imperialism.

TERRITORIAL JURISDICTION OF STATES

While the jurisdiction of a state in the broadest sense includes its entire political domain, states are recognized at international law as having specific types of jurisdiction, including on the one hand, jurisdiction over persons, and on the other hand aerial, fluvial, maritime and territorial jurisdiction.⁴ It is the last named, that is, territorial jurisdiction, which is of interest here. This territorial jurisdiction includes the land area over which the state exercises its power, and its increasing significance and more complex legal form are indicated by the statement that "the growing importance of railroads, telegraph and other appurtenances has introduced new topics into the international laws relating thereto."⁵ In general the doctrine of international law covering this subject may be stated as follows: within its own boundaries the state has absolute jurisdiction over all land and appurtenances thereto and further the state has, as against other states, exclusive title to all property within its territorial jurisdiction. This abstract doctrine is largely applicable in fact in many countries, including especially the more advanced ones. However, as has already been seen

⁴ Wilson and Tucker, *op. cit.*, pp. 107-108.

⁵ *Ibid.* p. 107.

in the survey of the legal factor in international relations and as will appear from a further consideration of territorial jurisdiction, there are innumerable ways in which states actually yield this exclusive jurisdiction both for the ordinary purposes of commerce and in the cases of the limited jurisdiction of less powerful but nominally sovereign nations over parts of their countries dominated by the powers. Meanwhile an enumeration of the methods by which a state may acquire new territory will throw further light upon the problem.

ACQUISITION OF TERRITORY

The methods recognized at international law by which a state may acquire new territory include discovery, occupation, conquest, prescription; cession; accretion, and lease. Some of these methods merge one into another and some of them are much less used than others at the present time.

Discovery applies to land hitherto unknown or unclaimed, but this method has been sufficiently abused to produce a modification of the doctrine so that it is generally accepted that the discovery must be coupled with occupation, and in view of the fact that so much of the land area of the globe has now become known, this method is of relatively little present-day importance. *Occupation* strictly applies from the beginning of application of state authority, and it has actually been extended to adjacent land, it must be effective and continued. It has involved certain auxiliary doctrines. One of these is the hinterland doctrine according to which a region must have an outlet, there was a tendency away from this viewpoint in the late Nineteenth Century, but the tendency at the present time is in the direction of the hinterland idea, apparently for obvious economic reasons. It is also held that uncivilized native peoples although under

the jurisdiction of the occupying power are "the rightful occupants of the soil," and this concept is involved in the relations of the United States Government with the Indians and is embodied in the mandate system established after the World War. *Conquest* must be more than mere military occupation. Such occupation may pass into conquest by actual and long-continued occupation without continued effort against it by the former holders. It may be considered completed by a decree of incorporation acquiesced in by the native inhabitants and it may be confirmed by a treaty or act of cession. *Cession* consists of a transfer of territory by gift, exchange, sale, or other agreement, such as an indemnity agreement, the acquisition of a considerable portion of its present territory by the United States by means of purchase is an illustration, as is also the transfer of German colonies to the Allied powers as an indemnification arrangement under the Versailles Treaty. *Prescription* is simply long-continued possession and is looked upon as effective when other states have for a long time made no objection. Pending such tacit acquiescence title by prescription is valid only as against other states. *Accretion* may take place by either an alluvial or a river shifting process. Thus alluvial land near a coast of a state belongs to that state, and when a river gradually shifts its course, either banks or islands, depending upon whether the boundary line was in the middle of the channel or at one side, may be transferred. *Leases* have been fairly common methods of transfer of territorial jurisdiction in recent times, usually they have been for periods of twenty-five to ninety-nine years, although the United States in 1903 leased the Panama Canal Zone in perpetuity and under such terms that complete sovereignty was really established by the United States. Leases have been particularly significant in the exploitation of so-called backward areas and the

method has gone hand in hand with the sphere of influence and other methods used in such exploitation, thus China in recent periods has granted a number of territorial leases to foreign powers, some of which have ultimately merged into more or less complete foreign possession. The merging of territorial leases and spheres of influence or interest into permanent possession, under the guise of one legal technicality or another, and the coincidental use of these along with other methods, have constituted one of the significant legal aspects of foreign economic domination in recent times

COLONIES, PROTECTORATES, SPHERES OF INFLUENCE AND INTEREST, AND MANDATES

In spite of doctrines of international law concerning the absolute sovereignty of a true state and its exclusive territorial jurisdiction, just as there are actual exceptions in the way of units less than true states, that is, persons of qualified legal status recognized at international law, so also among the doctrines of international law is found a category described by the phrase "qualified territorial status"⁶ This category is of particular importance in any consideration of the economic aspects of the world's territorial system because it includes protectorates spheres of interest and influence, and mandates and because these cases of qualification or limitation of strictly sovereign status both have special economic significance and form the twilight zone between national territory proper on the one hand and colonial possessions on the other hand

COLONIES

Colonies of course, are not regions of qualified territorial status, but are outright non-contiguous territorial posses-

⁶ Wilson and Tucker, *op cit*, pp 59, 60, 113, 115

sions of various powers. In a strict, legal sense they do not include certain types of dependencies. Thus the British Empire is made up of Dominions,⁷ Crown Colonies, and a variety of other possessions with differing status and varying degrees of dependence and autonomy. However, regardless of the particular form of local government and its relation to the "home" government the term colonies may for practical purposes be used to include all territorial possessions of the powers, where the sovereignty of the "home" state definitely extends to the territory. This is particularly true for present purposes, since the larger economic characteristics of these various forms of possessions are the same in spite of necessary economic distinctions between the British self-governing Dominions and all other colonial forms. Furthermore, from the viewpoint of economic significance the whole modern system generally known as the colonial system and comprehended in the term "economic imperialism" includes not only the various types of colonies but also areas of qualified territorial status, such as protectorates, spheres of interest, and mandates. Thus it is unlikely that

⁷ At the British Imperial Conference held in London late in 1926 and attended by representatives of the principal parts of the Empire, Australia, Canada, New Zealand, Newfoundland, and the Irish Free State (and to a limited extent, British India), some of which had already received important increases in local autonomy, are reported to have obtained still greater autonomy. With respect at least to the Dominions, with a governor-general to represent only the King, with Dominion Commissioners in London, with individual though not entirely separate diplomatic representation for some, with incapacity for the Government in London to commit them in foreign affairs, and with individual membership in the League of Nations for some, these countries may tend to develop from largely dependent units into parts merely of a British commonwealth of nations. The fact is, however, that the composite total remains an empire, regardless of these measures of large political autonomy, and even regardless of the not inconsiderable portion of economic independence due to industrialization in such countries as Canada. Indeed at the conference referred to, measures for increasing the "commercial unity" of the Empire were reported to be among the major items of consideration.

the Allied Powers in partitioning the former possessions of Germany and her associates after the World War were entirely free from motives of economic advantage, British interest in Mesopotamian oil, for example, may have been popularly exaggerated, but it is to be assumed that some such interest did exist, just as similar interests cannot be read out of the Lausanne Conference. It is important to bear this larger connotation of the term, colonial system, in mind, since many of the actual economic data concerning the colonies of the world given in the following portions of this chapter do not include these areas in the twilight zone of legal category. On the other hand just as it is difficult to say when a condition of political dependency has become sufficient to justify its exact legal inclusion in the category of colonies, so also it is difficult to determine at what point, in the process of absorption that often takes place, a colony ceases to be a colony and becomes "assimilated" to the mother country. Without undertaking an explanation of the legal controversies over this question, it may simply be noted by way of example, in the case of the United States, that Alaska and Hawaii, having a status of "territories" even though it involves little autonomy or national representation, may be considered assimilated and therefore a part of the United States itself, as shown in their tariff system, while the Philippines and Porto Rico are still strictly colonies. Meanwhile, it will be important to examine briefly the various types of areas which are to be classified legally under the category of areas of qualified territorial status, since they may be considered parts, if not of political empires, certainly of economic empires.

PROTECTORATES

Protectorates, as indicated in the foregoing chapter, involve the acquisition by the protecting state of jurisdiction over

all of the external affairs of the protected community, the protecting state assuming direction of the foreign relations of that community. Suzerainties are not greatly different from protectorates in legal status except that they involve generally less independence, the native communities having only the competence bestowed by the suzerain whereas it is at least technically true that a protected community reserves all powers not specifically granted to the protector. In actual economic fact there may be little difference between protectorates and other forms of qualified territorial status: the setting up of a British protectorate over Egypt during the World War and the subsequent withdrawal of that protectorate probably had little fundamental effect upon British domination of the irrigation system, the long-staple cotton industry, the external shipping, and other phases of Egyptian economic activities.

The question of the exact status of certain Latin American regions is an interesting one. European publicists have sometimes classified Cuba, as well as Haiti, the Dominican Republic, and even Nicaragua (as well as Liberia in Africa), as protectorates of the United States. Aside from the application of the Monroe Doctrine in Latin America, which is beyond the scope of the present question, and aside from the fact of occasional military interference by the United States for special reasons in places like Haiti, none of these countries is in any sense a possession of the United States, and it is questionable whether any of them are, technically, protectorates.⁸ However, there are two sides to the Cuban

⁸ One American writer has classified the following as American protectorates (with dates of acquisition): Nicaragua (1911), Panama (1904), Cuba (1898), Haiti (1915), Dominican Republic (1905) (*vide* Hart Maps). As mentioned above, the United States leased the Panama Canal Zone in perpetuity, but many if not most American authorities refuse to classify The Republic of Panama, Haiti, Nicaragua, and the Dominican Republic as American protectorates in the true sense. For a discussion of

question. On the one hand, the United States has no control over its foreign affairs, except as concerns certain matters and this on the basis only of a veto power. Furthermore, the right to interfere in internal affairs is technically limited, and Cuba has a tariff system of its own.⁹ On the other hand, economic advice is often preferred in financial and shipping matters, as has been done from time to time in Haiti and elsewhere. On the whole, however, in spite of any "big brotherly" attitude in economic problems, and as illustrated in the fact that the tariff reciprocity between the two countries was in no sense dictated, it would be inaccurate even from the economic viewpoint to regard Cuba as in any way a part of an American "empire." The most that might be said is that for historical and geographical reasons the economic relation between the two countries is peculiarly close.

SPHERES OF INFLUENCE AND INTEREST

The term "spheres of influence" dates from the Berlin Conference of 1884-85 and such a sphere has been defined in international law as "a sort of attenuated protectorate in which the aim was to secure the rights without the obligations . . ." The phrase was first applied in the partitioning of Africa. The status of spheres of influence in the legal relations of nations is further indicated in the fact that they

the status of territories of the United States with special reference to a commercial matter (*ie*, with reference to the Webb-Pomerene Law), *vide* Norz, Wm. F., and Harvey, R. S., *American Foreign Trade as Promoted by the Webb-Pomerene and Edge Acts*, Indianapolis, 1921, pp. 181-197, for this purpose, and upon citation of legal decisions, Hawaii, Alaska, and Porto Rico are classified as "territories" of the United States, the Philippine Islands, Guam, Tutuila (American Samoa), the Guano Islands, the Virgin Islands, and other small, scattered islands, as not strictly territories, but of course as American possessions, the Panama Canal Zone as "a part of the United States," while Cuba is denoted as "a foreign nation" .

⁹ U. S. Tariff Commission *op cit*, pp. 5-12.

are mutually exclusive but not binding upon other states not party to the arrangements. In fact this indicates their most essential characteristic. They generally consist by their very nature of an arrangement between two or more powers for the mutual recognition of each other's special claims to different areas and are thus one of the most convenient methods devised for the partitioning of backward areas, while on the other hand, certain other states such as the United States, which do not participate in the partitioning and which may be pursuing a policy of equality of opportunity may, until the areas have been transformed into outright possession, entirely ignore the existence of the claim made by the power asserting the sphere, or protest it. They have also been defined as follows ¹⁰ 'A sphere of influence is a region wherein a given power claims — frequently but not exclusively by reason of 'peaceful penetration' — to have a predominate interest which entitles it to any special economic or political rights which may be accorded or obtained therein'.

Without any definition to this effect at international conferences or in international law, it should further be noted that in general practice there has been a fairly well-marked distinction between spheres of influence and spheres of interest, in that the former phrase has been used more often with reference to Africa, and the latter with reference to Asia, and also in that the former has had somewhat more political significance than the latter. In fact, the spheres of influence carved out in Africa have been largely in areas of singular lack of advancement where limitations of native statehood, as observed above, have largely led ultimately to outright colonial possession. On the other hand, the spheres of interest in Asia, while not without political significance, as

¹⁰ *Ibid.*, p. 6

in the insistence of the power's right to choose political and military advisers, and perhaps not without some thought of their becoming possessions in the future, have been more predominantly of an economic character. They have usually been set up in countries of older civilization and more definite statehood than those of Africa, with economic motives clearly involved, and have actually resulted in attempts at monopoly of such things as mining and railway concessions.

Finally it should be noted that spheres of influence and spheres of interest in very recent years, in name at least, have tended to pass out of existence. In Africa, with the possible exception of the not entirely definite case of the Anglo-Egyptian Sudan, they have largely given way to outright possession or to mandates, while in China they have been theoretically terminated by the resolutions and agreements of the Conference on the Limitation of Armament.¹¹ Indeed it is to be observed that the United States, with its traditional Open Door policy, has more or less consistently refused to recognize the entire sphere of interest system and in pursuance of this policy led the way at the Arms Conference to a nominal international abolition of that system in China, although this has not estopped the setting up by other powers of claims to special economic interests in such regions.

MANDATES

Mandates¹² constitute the newest form of qualified territorial status. The term applies to certain colonies and territories which as a result of the World War passed from the sovereignty of certain states, particularly Germany, but also

¹¹ For a survey of foreign economic interests in China and the effect upon them of the Arms Conference *vide* subsequent chapter.

¹² For brief indication of status, *vide* Wilson and Tucker, *op. cit.*, p. 60, for popular description, *vide* White, F., *Mandates*, London, 1926.

including Turkey. By article 119 of the treaty of peace, Germany renounced in favor of the principal Allied and Associated Powers all her rights to her overseas possessions. Consequently the title passed to these powers and not to the League of Nations,¹³ but the powers as members of the League allocated these regions, under the so-called mandate system, which is provided for in Article 22 of the League Covenant. This article sets forth various reasons for their tutelage: terms them a 'sacred trust of civilization,' and provides for their administration by the respective mandatories under the supervision of the League to which annual reports are to be made. The article also groups them into three classes, a classification of considerable economic importance.

Class A mandates apply to 'certain communities formerly belonging to the Turkish Empire' which have reached a stage of development where 'their existence as independent nations can be provisionally recognized subject to the rendering of administrative advice and assistance by a mandatory until such a time as they can stand alone.' Under the allocation they are Mesopotamia and Palestine, mandated to Great Britain, Syria, mandated to France.

Class B mandates are those applying to 'other peoples, especially those of Central Africa,' who 'are at such a stage that the mandatory must be responsible for the administration of the territory under conditions' which will guarantee such things as religious freedom and 'will also secure equal opportunities for the trade and commerce of other members of the league' — a significant clause. These mandates include British — Tanganyika, part of Togo, a small part of Kamerun, Belgian — Ruanda and Urundi, French — the remainder of Kamerun and Togo.

¹³ The same is true of the former Turkish possessions transferred.

Class *C* mandates cover "territories, such as Southwest Africa and certain South Pacific Islands, which owing to the sparseness of their population, or their small size, or their remoteness from the centers of civilization, or their geographical contiguity¹⁴ to the territory of the mandatory, and other circumstances, can best be administered under the laws of the mandatory as integral portions of its territory." Class *C* mandates are To Great Britain—Nauru (joint administration with Australia and New Zealand), to Australia¹⁵—former German New Guinea, to New Zealand—Western Samoa, to the Union of South Africa—Southwest Africa; to Japan—the Caroline, Marianna, and Marshall Islands

Two phases of the mandate system are significant from the economic viewpoint. One concerns the Open Door and the other the possession by mandated areas of outstanding or strategic economic value. As to the former, the difference between the three classes is interesting. In the case of Class *A* mandates, Article 22 of the League Covenant makes no provision for the Open Door, that is for equality of economic opportunity for the nationals of all states, but the actual draft of the mandate itself includes such a stipulation for members of the League. The United States has protested in a case of apparent attempt at exclusion in oil exploitation in Mesopotamia, and even if no cases of discrimination arose, the possession of mandatory control could not but prove to be of some economic advantage to the mandatory power, however indirectly. For territories under Class *B* mandate

¹⁴ "Geographical contiguity" and "territorial propinquity" have been favorite phrases in the diplomatic language of certain powers in claiming special interests.

¹⁵ Mandates to Australia, New Zealand, and Union of South Africa were nominally to "His Britannic Majesty, to be exercised on his behalf by" said Commonwealth, Dominion, and Union, respectively.

Article 22 specifically provides the Open Door for League members. As for Class C mandates, no such provision exists. Indeed such a provision would in a sense be inconsistent with the policies, not of the United States, but of some powers, since these territories are to be administered as integral parts of the mandatory country, and discrimination has actually been practiced. On the other hand, the United States, not a member of the League, has never subscribed to the mandate system, and as in the case of spheres of interest, has insisted upon equality of opportunity for its nationals. However, at the Washington Arms Conference, in order to effect a settlement with Japan concerning Yap, an island in the Carolines on which it has an important cable base, the United States recognized the Japanese mandate rights on that island in return for Japanese recognition of American cable and other economic rights and assurance of equality of opportunity there for American nationals.¹⁵

In considering the other principal economic aspect of the mandate question, while it cannot be said that any one of the mandated territories is without some economic value, it may be questioned whether many of them have any vast or truly strategic economic importance. The existence of a more or less essential American cable base on the island of Yap is an outstanding case, and this led to the controversy between the United States and Japan which, as just mentioned, was at least nominally settled at the Arms Conference. Following the allocation of Nauru to Great Britain there were reports of great quantities of phosphate on that Pacific island and predictions that by virtue of their possession the British Empire would be freed from dependence upon other countries, especially the United States, for

¹⁵ *See* subsequent chapters, this study.

supplies of this material, and might even become the world's leading source of the commodity, but these reports of resources appear to have been greatly exaggerated, and certain difficulties in production and transportation apparently further limit the possibilities of a large output, so that the United States remains the world's chief source of phosphate. Nevertheless the actually joint administration of Nauru by Great Britain, Australia, and New Zealand was made to include a monopoly of all the phosphate rock, on the ground that an agency of these governments had bought out a British company which formerly had exclusive rights to dig the rock there,¹⁷ so that this constituted another case of an attempt to close the door in a Class C mandate. The case of Mesopotamia and petroleum has been a prominent one, and will be discussed in a subsequent chapter. In general, however with these possible exceptions the mandate process may perhaps be viewed as less a scheme for the capturing of strategic advantage than a mere addition, in a modified form to the methods of general economic and political partitioning of subject areas.

DISTRIBUTION OF COLONIAL OWNERSHIP

Reverting to the case of colonies and considering them in the broader sense of the term,¹⁸ that is, not confining consideration to colonies proper but extending it to all possessions and parts of empires, it is of interest to note their extent and distribution. It has been remarked above that

¹⁷ *Ib. id.*

¹⁸ The principal colonial and empire possessions, without enumerating minor, small, and scattered colonies, include Great Britain — Canada, Australia, South Africa, New Zealand, India, Egypt, France — Algeria, Indo-China, Tunis, French Morocco, Netherlands — Dutch East Indies, Dutch West Indies, United States — Philippines, Porto Rico, Japan — Taiwan (Formosa), Chosen (Korea), Dairen (lease), Belgium — Belgian Congo, Italy — Eritrea, Somalia, Libya.

nearly one half of the world's land area consists of colonial territory of one status or another, and that this territory is divided in ownership among a number of nations most of which have comparatively a fairly small home area in which there has developed a more or less intensive, industrialized economic system. This last is not true of several powers which acquired their colonies in earlier periods in pursuance of mere military conquest, but it is decidedly true of the most successful and the most typical colonial powers of the present, such as Great Britain.

While the total home area of the colonial powers before the World War amounted to somewhat more than $4\frac{1}{2}$ million square miles, these powers had possessions with a total area of nearly $21\frac{1}{2}$ million square miles, or a total colonial area about $4\frac{2}{3}$ times their own total territorial size, territorially speaking therefore, in vernacular terms the case is one of the tail wagging the dog. The proportions of the total colonial area held by the various colonial powers was equally striking. This distribution of ownership is indicated in the following percentages of the total: the United Kingdom nearly 60%, France, nearly 20%, Germany over 5%, Portugal and Belgium, over 4%, respectively, the Netherlands, less than 4%, Italy, less than 3%, and Spain the United States and Japan, each less than 1%.¹⁹

A further interesting measurement of the distribution of colonial ownership is found in a comparison of the home area of the colonial powers with the areas of their colonial possessions. Thus, just prior to the World War the United Kingdom had colonial possessions with a total area more

¹⁹ Figures are for 1913 and are from data in U. S. Tariff Commission, *op. cit.* Home areas pre-war, except for France which includes Alsace-Lorraine. Exact percentages of total colonial area: U. K. 59.03, France 19.03, Germany 5.28, Portugal 4.34, Belgium 4.23, Netherlands 3.64, Italy 2.75, Spain .63, U. S. .55, Japan .52.

than 100 times as great as the area of the mother country, and the corresponding ratios for other colonial powers were. France nearly 20, Germany more than 5, Portugal over 26, Belgium 80 the Netherlands over 62, and Italy more than 5.²⁰ Only Spain, Japan, and the United States had possessions totalling less in area than their possessors, and in the case of Spain and Japan the colonial areas were more than half the size of the mother country, the United States, with a home area roughly thirty times as great as that of all her possessions, stands alone, therefore, as a colonial power whose colonial system is negligible in proportion to the size of the mother country.

While these data apply to the pre-war situation, the only substantial change in colonial area since that time has been the surrender of the German colonies and of certain formerly Turkish areas. Germany, therefore, has ceased at least for the present to be a colonial power. On the other hand, the disposition of the former German and Turkish territories upon their surrender as a result of the World War has been technically such as to preclude their strict classification as colonies although as noted above the mandate system cannot be dismissed, in either a legal or a practical economic sense, from a consideration of economic imperialism. In a sense, therefore, the transfer of these territories, while not adding technically to the colonial area, has somewhat extended the territorial control of several powers, principally Great Britain, France, and Japan.

The facts just set forth have to do with size alone, and it is scarcely necessary to remark that such data cannot be

²⁰ Source of data, as above. Exact ratios, mother country to colonies: U. K. 1 to 104.3, France 1 to 19.2, Germany 1 to 5.4, Portugal 1 to 26.3, Belgium 1 to 80, Netherlands 1 to 62.1, Italy 1 to 5.3, Spain 1.4 to 1, U. S. 30.7 to 1, Japan 1.3 to 1.

adopted as the sole basis for judging the relative place of the various powers in the modern colonial system. Many other methods of measurement might be used, all of which, however, cannot be combined in a single composite index. For example, when population is considered it is found that the colonial jurisdiction of the powers over persons is not so great in size as their jurisdiction as indicated in square miles, which reflects the comparative sparseness of population of the world's colonial regions when compared with the considerable density of population found in the home territories of most of these powers. The density of population in the colonies of the United States, in proportion to that of the mother country, is sufficient substantially to alter its mother-country-colonies-ratio, while the colonies of the United States are approximately only one-thirtieth as large in area as the mother country, they are nearly one-eighth as large if measured in terms of population and the United States controls more than two per cent of the world's colonial population as against approximately $\frac{1}{3}$ of one per cent of the world's colonial area. There is also a sufficient density of population in certain British, Dutch and Japanese colonies to give these powers a larger place in population-control than in area-control. In fact, in one sense it may be deduced that percentage of world's colonial population is a better index than percentage of world's colonial area, for this tends to emphasize the colonial systems such as the British and Dutch, which are known to be of greater economic importance. In this phase of the appraisal there can be no doubt that the presence of a larger population in a colony frequently reflects an earlier civilization and the preexistence of some economic development upon which the later development may be built, as in the case of British India, and a

large population is also of much importance in furnishing a larger labor supply for the establishment of plantations and other colonial industries ²¹

To a certain extent, therefore, it may be asserted that those nations which have obtained colonies with large populations have been the most successful colonial powers, and this might even imply that colonial economic development has been more a matter of exploitation of populations than of materials. However, both elements are important, as so clearly evidenced in the case of the British Empire. Furthermore, the colonial powers altogether control areas $4\frac{2}{3}$ times their own size and total populations only $1\frac{2}{3}$ times as large as their own, so that in general the colonial system in its most important aspects may be looked upon as a reaching out from congested industrial areas to frontier areas of relatively smaller population, in order to obtain control of resources and, in addition to the securing in certain instances of strategic military bases, to develop increased facilities for trading, shipping, and financial activities. Nor does this include to any great extent, the frequently cited desire for regions which will care for an overflow of population, for with a few important exceptions, as in the case of the British Dominions, the peoples of colonial powers in the more recent periods of modern colonization have not migrated to their colonies in extremely large numbers, even when the climatic and other natural conditions have been, as in the case of Taiwan and Chosen, more or less similar to those of the home

²¹ Population data (same source as above), 1913. Percentage of world's total colonial population: U. K. 69.93, France 9.97, Germany (pre-war) 2.68, Portugal 1.55, Belgium 1.24, Netherlands 8.55, Italy 3.2, Spain 2.4, U. S. 2.20, Japan 3.82. Ratio, mother country to colonies: U. K. 1 to 8.5, France 1 to 1.4, Germany (pre-war) 5.3 to 1, Portugal 1 to 1.5, Belgium 1.1 to 1, Netherlands 1 to 7.1, Italy 2.1 to 1, Spain 15.9 to 1, U. S. 8.5 to 1, Japan 2.7 to 1.

country, ²² certainly such migration has been in no case sufficiently large substantially to lessen the congestion of mother country population which is so often advanced as a natural justification for colonial expansion. In fact, the colonization process of present times is much less of a movement of an overflowing population than a reaching out from areas of intensive economic development for commercial control of facilities for supplementing or, more especially, complementing, such development.

Doubtless the best single index to the relative economic importance of the various colonies is to be found in their external trade, this can be measured and compared, and to a considerable extent it reflects their internal economic development, while it also shows much of their importance to the colonizing countries. This will be analyzed at a subsequent point in the present chapter and will further emphasize the rank of the various colonizing countries. In other words viewed in the light of area and population as well as of commerce it becomes clear that Great Britain takes first place in the colonial economic system of the present day, with France a distant second, and followed by a number of others of greater or less importance including the Netherlands, Portugal, Belgium, Italy, Spain, Japan, and the United States. Portugal and Spain were more important as colonial powers in the earlier periods of modern colonization. In recent periods they have not only possessed smaller total colonial areas, but, being relatively much less advanced in the process of industrialization, they have brought about relatively less economic development in their colonies. The latter is true, to a limited extent, of Italy, and possibly Belgium and the Netherlands. The United States is only partly in-

²² Even the British Empire Settlement Act of 1922, furnishing financial aid for emigration from the United Kingdom to British Dominions and colonies, does not seem to have had large results.

dustrialized, though tending to become more so²³ Japan only recently began her industrialization. Thus the leading economic colonial powers of today might be said to be Great Britain, France, and the Netherlands, with Japan advancing in importance. Judging from the trend of the underlying economic forces, it might be expected that Great Britain, Germany, France, the United States, and Japan, being presently and potentially the leading industrial powers, would be the leading nations of the future either in economic colonial control or in some sorts of arrangements for insuring, perhaps by checking the colonial system and enlarging upon the policy of the Open Door, the necessary supplementing of their supplies and markets, but various factors, such as the possibilities of industrialization in the colonies themselves and in other so-called backward areas, make any prediction difficult.

However, in considering the relative place of the powers in the colonial system, and before attempting a full appraisal of the economic significance of that system, it is important to observe certain economic differences in types of colonies.

ECONOMIC TYPES OF COLONIES

Again considering only colonies proper — although most of the distinctions as to types and facts concerning economic importance can be applied equally well to the other areas of control mentioned above — while in general all such areas apparently possess certain common characteristics, it is important to distinguish between different economic types of colonies. Thus fairly accurate lines may be drawn between plantation and settlement colonies, between tropical and non-tropical colonies, and between dependent and self-govern-

²³ *Idé infra*, Chapter on "The National Economy of the United States"

ing colonies,²⁴ and these classifications are generally coincident. In a word, it may be said that there are the tropical, plantation, dependent types, and the non-tropical, settlement, self-governing types. In these, conditions and consequently policies, vary.

NON-TROPICAL, SETTLEMENT, SELF-GOVERNING COLONIES

The British self-governing Dominions, Canada, Australia, New Zealand, and South Africa constitute the last-named category.²⁵ Here the geographic, racial and economic conditions are more nearly like those of the mother country, and there is a corresponding similarity in the character of economic development and a necessary difference in the colonial policy. Climate and even soil are often not greatly unlike those of the colonizing country. Settlement has consequently been possible, making the population similar to that of the homeland. The labor, capital, and management have possessed a corresponding similarity, at first being supplied largely by the colonizing power and later tending to be developed locally along such similar lines as to lead to much the same kind of economic institutions as those of the mother country. Agriculture is largely of the temperate zone sort. Of most significance, manufacturing tends to develop, and these territories show varying degrees of actual industrialization, Canada tends to follow somewhat the same lines of industrialization apparent in the economic history of the United States. As a result of all these characteristics the exports are generally very different from those of tropical areas, and may even comprise growing proportions of manu-

²⁴ U. S. Tariff Commission, *op cit*, p. 13.

²⁵ The colonies which later became the United States were incipiently of this type.

factured products, and imports are also different. As a further result these colonies have attained a large degree of local autonomy, including fiscal powers and therefore freedom in tariff-making, and they have exercised this power by establishing protective tariffs, to some extent in conflict with the general tariff policy and even the economic interest of the mother country.²⁶ In spite of all these facts, however, it is to be observed that these regions have thus far presented a kind of foreign trade which is typical of the most fundamental characteristic of all colonial trade, so that they do not constitute so much of an exception to the general principle laid down above. Great Britain still looks to them as large markets for her manufactures, and as sources of tremendous quantities of grain, meat, and wool, to mention several outstanding commodities. Furthermore, their large degree of independence has not led them to a policy completely defiant of the policy of Great Britain, they have preferential tariffs applying partly to trade with other colonies, but primarily and extensively to trade with the mother-country.²⁷ And the industrial and financial interests of Great Britain so far as is known, are not measurably impeded and are somewhat assisted in their access to Dominion activities.

TROPICAL, NON-SETTLEMENT, DEPENDENT COLONIES

In general all the colonies of the world except the British self-governing Dominions are of the dependent type and practically all of them with the possible exception of Malta, Korea, and, if it be (incorrectly) classified as a possession, Egypt, are tropical, and many of them are characterized by the plantation sort of development. Agricultural plantations however, cannot always be established, for, while they necessitate a reasonably large supply of cheap labor, as in the

²⁶ U. S. Tariff Commission, *op cit*, p. 10

²⁷ *Ib. id.*, pp. 39-40

case of the rubber plantations of British Malaya and the Dutch East Indies, and the tea plantations of India and Ceylon, they are not always feasible in regions where the population is too congested and where consequently there is not the relative abundance of acreage. The plantation areas are therefore chiefly in tropical Africa, Oceania, and parts of India, Ceylon, the Malay Peninsula, Indo-China, the Dutch East Indies, and the Philippines. In other tropical colonies the economic method, at least in the past, has often been one of more direct and at times cruder exploitation, sometimes involving slavery and other forms of oppression. For this reason non-settlement colonies have sometimes been classified as either plantation or exploitation colonies. But in recent years the remarkable spread of the plantation system, and its increasing dependence on large supplies of labor, which is sometimes imported from another colony if necessary, make this system the most characteristic one in tropical colonial areas. This marks an advance in economic efficiency, and is well illustrated in the decline of wild rubber gathering in Africa (as in South America) and its supersession by rubber cultivation in British Malaya and the Dutch East Indies.

The non-settlement colonies show even more clearly than the settlement colonies the primary economic purpose of the colonial system. Such territories, generally speaking, almost exclusively produce raw materials desired by the industrialized powers, including both staples common to the commerce of the western world, such as wheat and cotton, and particularly other industrial raw materials and foodstuffs which can be largely obtained only from these areas, such as rubber, copra, jute, camphor, and certain kinds of hemp. In turn, the tropical colonies, with a few notable exceptions such as that of India, have practically no manufacturing indus-

tries of their own, and to the increasing extent to which they purchase manufactured and semi-manufactured articles they become important buyers of the products of the colonizing countries. Even where industrialization sets in, and certainly where the plantation system causes a growth of the simpler processes of preparation, as in the case of the oil-crushing and other mills in the copra and sugar producing areas, it is of at least some temporary advantage in the same way, since it creates a market for machinery and other equipment. This is the trade advantage. An equally important, and more fundamental, advantage lies in the outlet in the development of such areas for the surplus capital of the colonizing countries, and even in the employment for managers, or if it be considered that those countries technically have no real surplus of capital and enterprise, at least the capital and management supply is normally so large with respect to the demand that these new investments offer opportunities for increased interest and profits. At the same time auxiliary business processes such as banking and shipping are given increased employment through this development of colonial industry and trade. In settlement colonies, therefore, and even more strikingly in non-settlement colonies, is clearly demonstrated the *raison d'être* of the colonial system.

THE ECONOMIC VALUE OF COLONIES THEIR PLACE IN WORLD COMMERCE AND INDUSTRY

What has been said with respect to economic types of colonies demonstrates their economic value in a general way, and it should by no means be assumed that this value is only one of trade for their industrial importance is even more basic and their financial importance is significant. But the size and character and direction of their imports and

exports merit notice, and this partly because their trade reflects their economy. Of this trade, it is significant that just prior to the World War the largest share, more than a third, was contributed by the British self-governing Dominions, and that another large proportion was that of what have been called the "major colonies of Asia and North Africa," including principally India, the Dutch East Indies, and Egypt.²⁸

THE PROPORTIONS OF COLONIAL TRADE

An estimate of the general and relative proportions of the colonial trade is shown in the figures given on page 164.²⁹

Just as the colonial territories make up nearly half of the land surface of the globe, so also these figures disclose their huge importance in world trade, as well as their particular importance in the trade of certain empires and their minor importance in that of others. Thus in 1913 Great Britain, easily the leading colonial power, had nearly one-sixth of all the world's trade, or more than any other single country, not excluding Germany, the United States and Japan. But her Dominions alone had more than a third of all the colonial trade (using the term generically rather than strictly) and over 6% of the world's trade and her Dominions and other possessions had more than twice that much, namely, about seven-ninths of all colonial trade, or more than 14% of the world total. Consequently, the British Empire had more than 30% or nearly a third, of the world's trade, and of this nearly one-half was contributed

²⁸ NOTE: Egypt is classified as a colony by the Tariff Commission in its publication referred to above, although this is technically inaccurate, it was for a time a protectorate, and the protectorate was afterward withdrawn. On the other hand, British economic dominance is well recognized.

²⁹ For note on chronological limitations of statistics cited here and in several subsequent sections of this chapter, *vide* footnote above.

COLONIAL TRADE AND WORLD TRADE ³⁰

VALUES IN MILLIONS OF DOLLARS

	<i>Value, 1913 % of World Total</i>	
Gréat Britain	6,830	15 96
Canada	1,130	
Australia	770	
South Africa	553	
New Zealand	220	
India	1,662	
Egypt	299	
Total British Dominions	2,674	6 25
Total British Crown Colonies and India	3 404	
Total British Possessions	6,078	14 20
Total British Empire	12,908	30 17
France	2,969	
Total French Possessions ³¹	629	
Netherlands	2,814	
Total Dutch possessions ³²	432	
United States	4,224	9 87
Total U. S. possessions	193	0 45
Total U. S. and its possessions	4,417	10 32
Japan	678	
Formosa, Korea and Dairen	169	
Portugal	134	
Total Portuguese possessions	131	
Germany	4,967	
Total German possessions ³³	111	
Spain	433	
Total Spanish possessions	48	
Belgium	1 692	
Total Belgian possessions	25	
Italy	1 185	
Entrea, Somalia, and Libia	23	
Total colonial powers	25,927	60 59
Total colonies	7 838	18 32
Total colonial empires	33,764	78 91
Total non-tropical non-colonial countries ³⁵	7,268	
Total tropical non-colonial countries ³⁶	2,055	
World total	42,789	

by the possessions themselves. It might therefore be said that Great Britain in a sense had doubled her place in world commerce by reason of possession of her vast empire, but even this does not fully indicate the importance of her colonial system, because without it it is extremely unlikely that her own trade could have prospered as much as it did which again illustrates the basic industrial importance of the system.

Turning from the British case, there is noted the moderate importance, so far as absolute proportions are concerned, of the trade of all other colonies such as those of

⁴⁰ Figures selected and arranged from statistics given in Tariff Commission publication cited above, they are in round millions of dollars and are for 1913, they are not entirely comparable due to differences of computation, they quite evidently include, though not so specified, both imports and exports, so that from a world viewpoint the actual volume of the total world trade was approximately one-half as great as indicated.

⁴¹ Including Algeria, Indo-China, Tunis, French Morocco and others.

⁴² Including a large proportion for the Dutch East Indies and a small amount for the Dutch West Indies.

⁴³ The Philippines and Porto Rico.

⁴⁴ The transfer of these colonies after the World War should be noted.

⁴⁵ Including other European countries, Turkey, China, and non-tropical South America.

⁴⁶ Including Brazil, and other countries in South America, Cuba, Mexico, Central America, Persia, Siam, and Liberia. This classification by the Commission is slightly arbitrary, — for example parts of China are at least semi-tropical — but necessarily so.

NOTE. Since the figures are for 1913, they do not take into account the transfer of the German colonies, and the disturbances and changes in world trade during and since the World War, and these have been many, for example the trade of the United States has greatly increased. But in many respects there are tendencies toward a reversion to pre-war proportions, and the above figures are not without significance as an index to colonial trade in fairly recent times. It is unfortunate that more recent compilations have not been made. However, the difficulties of obtaining and compiling on a comparative basis statistics on external trade for the various areas of the world are such that any tables of the sort above are partly in the nature of estimates, and are necessarily a considerable number of years "out of date" by the time they can be comprehensively compiled.

France, the Netherlands, the United States, Japan, Portugal, Germany (in 1913), Spain, Belgium, and Italy. It is significant that the United States, with nearly 10% of the world's trade in 1913 (and a larger percentage in recent years), had colonies which contributed less than one-half of one per cent of the world total, and that the trades of the colonies of Japan, Portugal, Germany, Spain, Belgium, and Italy, respectively, were even smaller. In other words, only French and Dutch colonies at all rivalled the trade of British colonies, and this rivalry was small.

On the other hand, if to the British possessions be added all the colonies of other nations, the total importance of the colonial system in the trade of the world is reemphasized. All colonies together contributed over 18% of the world total in 1913, and all colonial powers together over 60%, so that the total trade of colonial empires reached the remarkable proportion of nearly 79% of the world total. In these figures there is a large significance. It may be a moot question as to which is cause and which is effect, to a considerable extent it is true that those nations which have built up colonial empires have done so because of their greater economic progressiveness, or aggressiveness (depending upon the point of view), and that colonial trade is therefore an effect. On the other hand, if the trade of the colonial powers constituted in 1913 over $\frac{3}{5}$ of the world total, and if the total trade of colonial empires made up nearly $\frac{4}{5}$ of the world total, there is considerable ground for the assumption, on the basis of these figures and of many other facts with respect to the details of the trade itself, that the possessions of colonies partly enabled the colonial powers to take this large place and that colonial activity has been in very considerable degree a means to an end. In any event these figures show most strikingly the extraordinary im-

portance of modern economic imperialism in world commerce and industry.

IMPORTANCE OF COLONIAL TRADE TO MOTHER COUNTRIES

Further light is thrown upon this question by the figures indicating, in amount if not in strategic value, the importance of the colonial trade to the mother countries. The trade of each colonizing power with its own colonies in 1913, indicated as a percentage of its total trade, was as follows.⁴⁷

Great Britain	34% ^c
Portugal	20% ^c
Japan	16% ^c
France	10% ^c
Netherlands	10% ^c
Spain	3% ^c
United States	3% ^c
Belgium	1% ^c
Germany	0.5% ^c
Italy	0.5% ^c

These figures more specifically emphasize the relative trade value of the colonies to the respective countries possessing them, and they again emphasize the British case in which more than a third of the trade of the mother country is carried on with her possessions, while indicating the considerable value of the Portuguese, Japanese, French, and Dutch colonies to their possessors, and the relatively small place of the Philippines and Porto Rico in the trade of the United States.

As a matter of fact however, these data do not fully indicate the peculiar commercial importance of the colonies, since the imports of the colonies consist so largely of manu-

⁴⁷ U. S. Tariff Commission, *op. cit.*, p. 19. The same statistical difficulties as indicated in the preceding data are to be noted here.

factured articles, including prepared foods, so that the colonies, with less than a fifth of all international trade, probably comprise a market for one-fourth of the manufactured exports of the industrialized countries, and since they supply, it is estimated, about one-fourth of the raw materials of international trade, so important in industry

THE CHARACTER OF COLONIAL TRADE

Thus in the character rather than in the volume of colonial trade is found its most fundamental significance. Colonial exports, while varying greatly from colony to colony, are remarkably uniform in one respect, that is, in that they are largely made up of raw materials, some of which are only so obtained or are of strategic importance. The list includes many staple materials and foods typical of the import trade of Great Britain and other industrialized countries of western Europe, such as wheat from Canada and Australia, meat from Australia and New Zealand, and wool from New Zealand and Australia and South Africa, and it embraces a host of exotic products which must be imported, in greater or less quantities into Europe and the United States. An examination of the list suggests a number of commodities which are of extreme importance as raw materials for the manufacturing industries of the colonizing powers, and many materials, such as rubber, which at present are obtained exclusively or almost exclusively from the colonial regions, such commercial dependence being emphasized by colonial restrictions that have checked their export or have at times sharply increased their price, as in the case of the Stevenson Act relating to rubber exports.

The imports of the colonies differ widely, not so much from colony to colony, but rather in their miscellaneous

character in any one case. In a comparison of the various colonies, it is observed that the lists of imports are generally very similar, with some exceptions in the case of the partly industrialized regions such as the British Dominions, which necessarily tend to import less of manufactured products. Typical colonial imports, especially in the case of tropical colonies, include cotton textiles largely of the cheaper sorts, tools, machinery, prepared and preserved foodstuffs such as canned milk and meats, dried fish, and sugar (in some cases), liquor and tobacco, salt, coal (largely for bunkering), matches, soap, glassware, sheet iron, and other iron and steel products, refined petroleum products (particularly kerosene), cement, leather goods and chemical products; some of these are raw products, but for the most part they are the typical exports of manufacturing nations

Colonial exports, therefore, are largely industrial raw materials and raw foodstuffs and vary greatly from colony to colony in many cases one colony constituting a most essential source of supply of some one or two commodities of strategic importance in the economy of the industrialized part of the world, and colonial imports, which are more or less common to colonies in general are made up of a variety of semi-fabricated and fabricated articles for which it is important for the industrialized powers to find markets

THE ECONOMIC POSITION OF THE UNITED STATES IN THE COLONIAL SYSTEM

The position of the United States in the colonial system of the world is of peculiar interest especially because internally as well as internationally there has been considerable discussion as to whether the United States is or is not imperialistically inclined. In one sense this question

is idle since in the various acts of any power can be found evidences of both imperialistic and non-imperialistic tendencies.

However, a careful examination of the geographic and economic facts of the case is enlightening, as it shows that at least at present the United States not only has a small place in the colonial system, so far as ownership is concerned, but is in turn peculiarly dependent upon the colonies of other powers. It has been seen above that this nation has a total colonial territory only about one-thirtieth as large as the territory of the country itself, and has only two colonies of any considerable economic importance, namely, Porto Rico and the Philippines. Alaska and Hawaii also represent non-contiguous territorial acquisitions, but they are treated practically as integral parts of the United States and are not classified as colonies, and, what is more important, have thus far proved to be of no outstanding economic value, which also may be said, in the main, even of the Philippines and Porto Rico.

So far as trade is concerned, and including Hawaii, it is generally believed that these possessions have been very profitable and it is true that the trade of the United States with them has increased since their acquisition. Thus it has been estimated that the trade of this country with its insular possessions (Philippines, Hawaii, and Porto Rico) in the first quarter century of American occupation totalled about 5½ billion dollars as against a little more than half a billion in the preceding quarter century, and that the United States has supplied a large proportion of their imports (65% in the case of the Philippines and over 90% in the case of Porto Rico and Hawaii), and has taken about 60% of Philippine, 90% of Porto Rican, and 95% of Hawaiian exports³⁸.

³⁸ *Export Trade*, Vol. VIII, No. 21, Cf. *Commerce Reports*, De-

On the other hand, it has been seen that only about 3% of the total foreign trade of the United States, in 1913 measured in value, was carried on with its own colonies, including Porto Rico, the Philippines, the Virgin Islands, and Guam, and excluding Hawaii. The significance of this figure is obvious, but it is heightened by comparison. In 1920 the United States sent nearly 20% of its total exports to colonies, but only a little over 2% to its own colonies, while nearly 11% went to Canada, over 13% to all British Dominions (including Australia, New Zealand, and South Africa), and important amounts to British India, the Straits Settlements, Egypt, Jamaica, and British West Africa, and other British possessions, as well as to the Dutch East Indies, and, in smaller quantity, to French and other possessions, indeed, of its *colonial* exports over eight-tenths went to British possessions, slightly more than one-tenth to its own possessions, and the remainder to possessions of other powers. The import trade is similarly striking. In the same year the United States purchased over 30% of its total imports from colonies, but less than 1% of its imports came from its own colonies, more than 10% came from Canada, over 12% from all the British Dominions, and important percentages from India, Ceylon, Straits Settlements, Egypt, and other colonies of Great Britain and of other powers, of its *colonial* imports nearly eight-tenths came from British pos-

sement, 6, 1926, p. 591 (art. by Dr. E. Dana Durand), for indication of large increase from 1903 to 1926. Increases in that period: U. S. exports to Alaska, Hawaii, Porto Rico, and the Philippines, 585% as against 230% increase to foreign countries (Alaska 234%, Hawaii 556%, Porto Rico 578%, Philippines 1,524%), U. S. imports from same eight times as great in fiscal year ended June 30, 1926 as in fiscal year 1903. "The investment of American capital, the education of the native population, and the maintenance of orderly government have increased production in all these possessions, raised the standards of living of the people and enhanced their buying power."

sessions and not a great deal more than one-tenth from its own possessions ³⁹

Therefore, however large a part of the trade of its colonies the United States may possess, this amount is not a large proportion of its total trade. If 20 to 30% of the total trade of this country is colonial, and if of that colonial trade approximately 80% is with British possessions and only about 10% with its own possessions, or again, if these possessions of the United States contribute less than one per cent to the total of all international trade of the world, the relatively small industrial and commercial value of the colonies of the United States is demonstrated.

This peculiar colonial position of the United States is still more fully indicated when specific commodities are considered. More than 22%, by value, of all merchandise imports into the United States in 1920 consisted of the following articles of which more than one-half of the world's supply is derived from colonies ⁴⁰ rubber, wool, long-staple cotton, goatskins, tin, tin ore, diamonds, ostrich feathers, spices, cocoa, vanilla beans, tea, coconuts, copra, coconut oil, shellac, manila hemp, raw jute, kapok, camphor, asbestos, graphite, and manganese ore. Some of these are luxuries but many of them, including rubber, long-staple cotton, jute, tin, and manganese, are of large importance in the industrial processes of the importing country, and it is further to be observed that with the exception of manila hemp and some coconuts and copra, they all come from non-American colonies.

Consequently, so far as trade is concerned, the United

³⁹ Figures selected and compiled from statistics given in U. S. Tariff Commission, *op. cit.*

⁴⁰ *Ibid.*, p. 25

States is to no appreciable extent dependent upon its own colonies, and is peculiarly and greatly dependent upon the colonies of other powers, particularly of Great Britain. It may be urged that this dependence is not so serious as first appears. For example, it may be pointed out that Canada, with which a large proportion of the trade is carried on, is in fact almost independent of Great Britain and also has maintained very friendly trade relations with the United States, although even here the many difficulties over the "Canadian reciprocity issue" are to be recalled. But an examination of the list of important commodities just given shows that most of them come from colonies which are to a considerable extent under the trade control of the respective colonial powers, as particularly illustrated in the case of rubber. What is probably most significant of all when the general trend toward industrialization in the United States is considered, it can only be anticipated that this form of dependence will tend to increase rather than decrease, in the future. The industrial dependence disclosed is more basic than the mere commercial facts.

There are, of course, still other aspects of the American colonial problem. There is the question as to the extent to which the colonies of the United States are or may be of value to their possessor, not in trade but in extension of industrial enterprise and in transportation and finance. But their degree of industrial importance has been indicated in the analysis of their trade and if the trade is small it cannot furnish large amounts of cargoes for American shipping. Nor are there any indications of unusually large capital investments in these areas, in some cases such investments, for the purpose of development of plantations which would produce essential raw materials such as rubber, needed in the United States, would appear to have been prevented by

peculiar obstacles such as laws limiting the size of land holdings and natural conditions resulting in lack of labor supply. There is constant discussion of the possibilities of much greater development of the colonies of the United States, and if such possibilities were realized these areas might assume a larger importance in the industry and in the trade, finance, and shipping of the United States. But the natural limitations of geographic conditions in the localization of industry, and the sheer smallness of area, prevent predictions of the development so far as present facts indicate, of any extreme economic value in the American colonies. Nor is it likely that this nation, with a fairly consistent policy, in recent times, against territorial aggrandizement, will add to its possessions, nor substantially change its position whereby to the extent that it has practiced economic imperialism its governmental administrative and improvement expenses have largely offset its small commercial gains.

Finally, it may be suggested that, since the interpretation of the term economic imperialism adopted in this discussion includes other things than colonies, in the narrower sense, an appraisal of the American position is not completed by a consideration merely of its colonies. But the United States has no real protectorates, and no suzerainties, mandates, or spheres of influence or interest. The only remaining question would concern the Monroe Doctrine, and the special relations existing between the United States and Central and South America. It is true that this policy, pursued throughout a large part of the history of the United States, has partly reduced the exploitation of Latin America by European powers, at least through acquisition of colonies, protectorates, and spheres of influence. It is also true that in a number of cases, as will be seen in subsequent chap-

ters,⁴¹ companies incorporated in the United States have had large success in the development of petroleum and other resources. But such advantages in investment and resource development have been fully rivalled by the commercial interest of other powers, as in the case of the British oil companies, and of British capital in the railways and other enterprises of Argentina, and there is no evidence of any monopolizing of the trade and shipping of Latin America by the United States. Indeed, there are evidences quite to the contrary. Accordingly, regardless of any indications of a kind of negative political exclusion, it may be concluded that the United States has not endeavored to practice economic exclusion in the regions to the south of it, and that its Latin American policy is not one of economic imperialism.

The relatively small place of the United States in the present-day colonial system is doubtless in many ways a result of a lack of necessity. The nation has a large area of its own and an unusual abundance and variety of raw materials and thus far in its history has been particularly busy at home in developing these resources. It has been under no natural pressure toward territorial aggression for economic advantage. But its commercial dependence upon outside colonial empires is a slowly but surely growing one which will at least force it to a continually increasing insistence upon the maintenance of the Open Door in other parts of the world.

TYPES OF ECONOMIC COLONIAL POLICY

While present-day economic colonial policies present many striking contrasts, when examined broadly and compared with earlier times, they reflect certain common character-

⁴¹ *Vide infra*, Chapter XIII

istics which are the product of an interesting evolution. This development may be observed by briefly surveying modern colonial history, which for this purpose may be roughly divided into three periods,⁴² from 1450 to 1815, from 1815 to 1875, and from 1875 to the present

EXPLOITATION — FIFTEENTH CENTURY TO 1815

During the period from the latter half of the fifteenth century to the end of the Napoleonic Wars it will be recalled that the Portuguese and Spanish, the Dutch, and the French and English, were successively the most successful nations in the process of exploration, discovery, and colonization then going on. Their methods varied considerably, and despite the presence of military and naval and other factors in their rise and fall as colonial powers it is safe to assume that comparative differences in their desire and ability to effect permanent colonization of the settlement type and to develop basic productive conditions rather than simply to exploit largely accounts for the waning of Portuguese and Spanish influence, for the successes of the Dutch, for the rise of the French, and for the final supremacy of the British in building the vastest colonial empire of modern history. However, the entire earlier period is characterized, in the large by the predominance of exploitation methods of the severer and ultimately less profitable kind, and this finds both economic illustration and political parallel in the loss of important colonies which would not tolerate the more extreme restrictive measures, as in the case of the American colonies of Great Britain, and in the final realization of the unwisdom of such a policy by those powers which finally emerged as the most successful ones

⁴² *Vide* U S Tariff Commission, *op cit*, pp 1-4

These policies of exploitation and restriction were not without their counterpart in domestic policies. Indeed, in most of the latter part of the period they may be considered a reflection of the widespread belief in the doctrines of Mercantilism and the more or less thorough incorporation of these doctrines in the economic policies of the leading European countries. If the powers shaped their commercial policies along the lines of a belief in the desirability of importing treasure such as gold and silver, and perhaps exotic raw materials, of selling only merchandise, of obtaining constantly a "favorable" merchandise balance of trade, and of pressing their foreign trade into their respective merchant ships, and if they enforced extreme measures at home in order to bring this about it was only natural that they should treat their colonies as objects for the furtherance of such plans, and no more interesting example of the policy can be found than the Navigation Acts which had so much to do with the provocation of the American Revolution. Along with this colonial extension of Mercantilism went a monopoly system, whereby the government would decree to itself monopolistic trade rights in a colony, or grant such rights to a chartered company which it controlled, as in the case of the British East India Company or would at least attempt to exclude all but its own nationals from the trade of the colony; to these measures were added monopolies of the carrying trade between the colony and the mother country, so that shipping as well as merchandising was thus exploited along lines of national exclusion. Such monopolies did not take the form of tariff differentials, which are characteristic of recent decades, but rather of absolute prohibitions with severe penalties, amounting even to death. Gradually the system was relaxed, technically by the growth of commercial treaties, but probably basically as

a result of a realization that it was not profitable. But this should not obscure the fact that even in later times colonies have been consistently looked upon as sources of raw materials and markets for the finished products of the industrial countries possessing them

RELAXATION — 1815-1875

The noticeable moderation in the restrictive measures of economic colonial policy which characterized a period of about six decades following the Congress of Vienna resulted alike from a growing conviction that such measures did not pay and from a general liberal movement in western history. This movement affected not only economic affairs but also religion, literature, and politics, and found expression in the liberal and humanitarian concepts of philosophers on the Continent, and in England, in the American Revolution and the French Revolution, and most notably from the present viewpoint, in the superseding of Mercantilist doctrines by the economic philosophy of "laissez-faire" as established by Adam Smith and his successors. It resulted, in economic affairs, in such things as the beginning of the movement in England which culminated in almost complete Free Trade by about 1848. And of course it was greatly influenced by the Industrial Revolution. Consequently, even general interest in colonies declined, it began to be felt that they were burdensome, expensive, and transient, and restrictions on colonial industry, trade, and shipping tended markedly toward relaxation.

IMPERIAL PREFERENCE — FROM 1875

After the middle of the nineteenth century, and particularly after 1875, there was a remarkable revival of colonial ex-

pansion The new explorations in Africa led to the establishment of colonies and spheres of influence there British territorial holdings in Asia, Africa, and Oceania became approximately four times and French holdings about sixteen times as great as they had been previously, and Germany, Italy, Belgium, Japan, and the United States acquired possessions and took their places among the colonial powers. This expansion and the increase in economic restrictions in colonial policy were at least partly the result of the growth of industrialism, with a consequently keener competition for markets for manufactures, and were associated with the decline of doctrines of "laissez-faire" and the advent of modern protectionism in a number of leading countries, although not in England Exploitation of colonies was renewed, although not in the crasser form of the first period. The new system was more refined and more indirect, even if no less effective, and revolved around the method of discriminatory differentials in tariffs and shipping, rather than the method of prohibitions In a word, the new era was one of imperial preference Not all of the colonial powers adopted this policy extensively, indeed, there were striking exceptions, just as England constituted a noteworthy exception to the general adoption of protectionism by most of the leading industrial nations including the United States In fact, it has been stated⁴³ not only that Great Britain and Holland, in the earlier part of the period, clung to the policy of substantial freedom of trade at home as well as in their colonies, but that Germany and Great Britain were jointly responsible for the maintenance of this policy in all of Central Africa. Further, the spread of the discriminatory system was checked in many instances by mutual agreements between colonial powers

⁴³ *Vide* U. S. Tariff Commission, *op cit.*, p. 4.

THE PRESENT TREND IN COLONIAL POLICY

Nevertheless, the preference system made large headway. It is somewhat difficult to generalize very broadly concerning the most recent years of this period, especially those since 1918, and since that time there have been no German colonies. Yet not only have countries such as France practiced discriminations, but Great Britain herself has resorted to such measures frequently. Indeed, after the World War there was a strong tendency in that direction throughout the British Empire. This tendency was so widespread that all of its examples need not be enumerated here, but evidences of it may be seen in the increase in certain Dominions of general tariff differentials allowing imperial imports a preferential level even lower than the level for goods from "most-favored-nations," in a differential export duty on hides and skins from India which involved a rebate in case of shipment to other points within the empire, in many similar export duties, and in various imperial conferences held at London to consider the possibilities of increasing the commercial unity of the mother countries and its colonies and dominions. It is true that the discriminations have been almost entirely colonial ones in favor of the mother country or other colonies — necessarily so because of the nominally free trade system prevailing in Great Britain. It is also true that many of the differentials which were put into effect in the several years immediately following the end of the War have since been repealed, and that there is latterly some tendency toward a subsidence of this movement in the various British regions. On the whole, the British Empire, considering both the mother country and the colonies, may be broadly characterized as one in which there has been a large measure of adherence to the traditional doctrine of freedom of trade,

doubtless for the reason that Great Britain is more preponderatingly dependent upon a free flow of international trade than any other power. But this does not lessen the fact that in this modern period, including the most recent years, there have been abundant evidences of discriminations along the lines of imperial preference, to an extent which has caused considerable comment in countries whose commercial interests were adversely affected. Again referring to discriminations of this sort, it is a notable fact that the United States, although it is noted as a power which bases its internal economic system upon the doctrine of equality of opportunity and continually champions that doctrine in international economic affairs, and although it has a colonial system of very moderate economic importance and of comparatively small value to its economic life, has clearly followed a policy of exclusion in some of its possessions, having "assimilated" Hawaii so far as tariffs are concerned and having set up in the Philippines a tariff system sometimes erroneously referred to as one of free trade yet actually characterized by, not 5 or 10 or 50, but 100 per cent preference for the trade with the mother country.

Further, any appraisal of the economic policies of the powers prevailing in colonies and outside areas in recent decades is incomplete when it takes only tariffs into account. Such policies find important expression also in measures and activities with respect to the development of resources, industries and railways, and in connection with foreign loans. These measures and activities, even to a greater extent than tariffs and other restrictions upon trade and shipping, are diverse and scattered, and often do not reflect a consistent or ~~deliberately~~ formulated policy, and many of them are found much less in the actions of governments than in the activities, often supported by governments in varying de-

gree, of private commercial interests, consequently it is difficult to generalize concerning them. But if to the cases of exclusion of or discrimination against foreign nationals in the development of colonial resources and industries, be added the cases of minor discriminations by private commercial interests, and the cases of support given by the governments of powers to their commercial concerns in these and financial activities in colonies and also in other areas of foreign exploitation, the evidences of economic imperialism are multiplied. In not rare instances the government of the power is itself a commercial participant. These various kinds of economic aggression beyond the territory of the country itself are numerous and will be dealt with in various parts of the following chapters. But they may be illustrated here by reference to such things as the exclusion of foreign nationals from rich oil fields in the Dutch East Indies which nevertheless permits access by British interests through a subsidiary of the Anglo-Dutch "Royal Dutch Shell Syndicate," the participation of the British government in the Anglo-Persian Oil Company which has special arrangements in Persia, the ownership by the Japanese government of stock in the South Manchurian Railway, the Japanese monopoly of camphor in Formosa, and the host of monopolistic and exclusive economic claims set up by the governments of powers, or by commercial interests supported by those governments, in the Near East and South America, and particularly in China — which country must also be included within the realm of imperialism. In the last mentioned case, the whole system of special and monopolistic concessions reached a climax in 1898, known as the year of the "battle of concessions," persisted in spite of American attempts to maintain the open door policy until 1921, was in important respects nominally ended by the

agreement of the Washington Arms Conference, but is not even yet a thing of the past

Not all of the cases are colonial ones in the narrower sense of the term. But in actual economic practice, and effect, if not in legal theory, the shading is so gradual from territorial possessions of a quasi-independent type, such as the British Dominions, down through colonies in the stricter sense, protectorates, mandates, spheres of influence, and regions in nominally sovereign countries where monopolistic concessions and other special and often exclusive economic interests are claimed, that these phenomena cannot be dissociated in considering the structure and tendencies of modern economic imperialism. They are the result of the same fundamental purpose and a part of the same process. Yet even if the colonies alone be considered it is seen to be a matter of doubt as to whether there is any substantial present trend toward mitigation of economic control. Doubtless the World War in certain respects tended to loosen the economic grip, because of the disruption and diversion of trade and other economic processes involved in the control. Thus, turning for the moment from governmental policy, certain important branches of the colonial trade which had been commercially controlled in the mother country veered away from the trans-shipment centers of Europe and tended to flow more directly toward the countries of ultimate importation, nor were the colonial powers of Europe able to maintain so well their colonial export markets. On the other hand, the United States and Japan tended to profit temporarily in such trade by reason of the European difficulties. But recently there has been a strong tendency toward reversion even in these matters of purely commercial control. So far as governmental policies are concerned, the post-war growth of a sharper nationalism is

commonly recognized; it has more recently shown signs of abating, but it is not a thing of the past. Finally, it should be observed that one most basic and permanent factor now tends to loosen the economic grip of colonial powers upon their colonies and other regions of special interest, and necessarily to force a gradual change in colonial policy, that is the process of industrialization which had begun some time since in certain of the British Dominions and has more recently shown small potential beginnings in colonies and "backward areas" where the only important industries in the past have been those producing raw materials. It is illustrated in the case of the iron and steel, cotton textile, and jute industries of India, of iron and steel in China — though that is largely under Japanese financial control, and of a cotton textile industry in China which to an interesting extent is under the control of native capital and management. Should the colonies and concession-ridden regions of the world go far in this process of industrialization and thereby develop more independent, better-rounded economies, it would most probably alter imperial policies greatly, since such policies are largely those of industrialized countries toward many of the important non-industrialized regions. Such a change has long since come about partly in the economic, and consequently political, policy of Great Britain toward certain of the Dominions, and there are some evidences of a realization by Great Britain that the beginnings of industrialization in India cannot well be suppressed and had best be encouraged and guided.

Probably only through such a transformation of the basic economic structure of what might be called the exploited regions of the world can any fundamental alteration be expected in the policy of the powers with respect to such regions. If it does occur the resulting transformation in

policy may be equally far-reaching. But the process is far from complete, with certain exceptions it has barely begun, and in many regions, especially tropical ones, there are almost insuperable obstacles, in the form of conditions of climate, capital and labor supply, and racial inaptitude for the industrial system. At least for the present, therefore, and for some time to come, large areas of the world will still be looked upon largely as sources of industrial raw materials and, to some extent, of foodstuffs, and as markets for manufactured products, to be utilized accordingly by the aggressive industrialized nations, and colonial and related policies, regardless of their form at a given moment, will continue, as in the past, to be guided by this fundamental fact. Further, in this process of utilization it is not unnatural that each power should strive for special economic advantage, although this does not necessarily indicate inevitably ruthless exploitation and unethical discrimination. By conscious effort the rules of the game, like the rules of any competitive business, may be made fair. Fundamentally, however, there is a certain inexorableness about the extra-territorial aggressions of the world's powers for economic advantage, and it is this that is alike the cause, the explanation, and prediction of economic imperialism.

THE COLONIAL SYSTEM AND ECONOMIC IMPERIALISM THE QUESTION OF JUSTIFICATION

The subject of colonization and territorial economic aggression⁴⁴ cannot be dismissed without mentioning the very

⁴⁴ For a discussion of the entire problem, from a general and less economic viewpoint, cf. Moon, Parker T., *Imperialism and World Politics*, N. Y., 1926, and (for more legalistic treatment) Lindley, Mark F., *The Acquisition and Government of Backward Territories in International Law*, N. Y., 1926. For a valuable handbook, in the nature of a cross-

interesting question of its justification. Purely ethical considerations need not be digressed upon at length, but the system necessarily raises a question of what might be termed larger economic morality.

The entire system has been condemned frequently, especially by statesmen of nations having either no colonies or no definitely imperialistic policy, as a form of unjust exploitation and of violation of the rights and liberties of native peoples, as it undoubtedly often has been. Yet it may also be viewed favorably and justified on the broad moral ground of its economic and other benefits both to these natives and to the world at large. Its necessity, even, is asserted, since, it is argued, without such colonial and related developments by the peoples of greater progressiveness, industrial skill and ingenuity, capital supply, and general economic capacity, vast areas would be idle and remain what the Marquess of Salisbury called them, the "wastelands of civilization"; the people who dwell in them, frequently in small numbers, should not, it has been contended, be permitted to prevent their utilization, a utilization which is necessary if the world in general is to attain the greatest possible efficiency and supply of goods and the highest possible standard of living.

Thus a recent writer, in describing a scheme for the development directly by the British Government of the resources of a number of hitherto largely undeveloped Crown colonies, explains that the scheme would be of great and varied benefit to the homeland, stimulating activity in the industries producing development apparatus such as railway and electrical equipment, opening new markets for

section of current world history, giving very briefly the international status and problems of each area of the world, *vide* Bowman, Isaiah, *The New World* (1st edition, 1922, *cf* later edition), Yonkers-on-Hudson. For current facts concerning official status of various countries and colonies, *vide* *Statesman's Yearbook*, current edition.

British manufactures, providing new raw materials for importation, and creating new business for British banking and shipping. But, he goes on to say, the benefits would not be entirely British, "in the wake of the enterprise there would be a steady cheapening of production, which is what the world is crying out for today" ⁴⁵ Such a British view is scarcely surprising, but it is slightly more striking to find the justification of the system, at least of foreign concessions, argued with considerable cogency, vigor, and elaborateness by a prominent leader in American business, who says "The countries which encourage their citizens to seek investments and trade abroad and back them up most effectively, will naturally lead in the development of backward countries . . . There is a moral obligation upon the inhabitants of every country to become a part of the international community, to fit themselves for membership in it and to make such contribution as they can to its welfare. The right to occupy a portion of the earth's surface is not absolute . . ." ⁴⁶ Another expression of this view indicates its place in at least a portion of public opinion, even in generally non-imperialistic America; after dealing with the natural forces which tend to create a pressure toward such expansion, it continues: "The exploitation of a weaker people by a stronger is repugnant to the modern sense of justice . . . But, on the other hand, there stands the challenging fact that these subject peoples, if left to themselves, would occupy vast areas of land without anything approaching an adequate contribution to the purposes of

⁴⁵ Chappell, E. C., "Great Britain to Develop Her Tropical Colonies," in *The Annalist*, July 3, 1922.

⁴⁶ Roberts, Geo. E., *Property Rights and Trade Rivalries, As Factors in International Relations with Special Reference to Investments and Concessions*, an Address before the National Conference on the Foreign Relations of the United States under the auspices of the Academy of Political Science in the City of New York, June 1917.

civilization. It is well to think of the rights of inferior peoples, menaced by superior peoples in the universal process of the intensification of production and a utilization of the earth's resources approaching the maximum. But what about the moral culpability of inferior peoples who fail to contribute an adequate share of the resources of the lands which they inhabit? " 47

This, then, is the final problem of imperialism. The solution might be said to lie in a distinction between selfish exploitation and unselfish development and assistance, but the practicability of such a solution is another matter. The creators of the League of Nations in partitioning the former German colonies sought to preserve this distinction when they declared the mandates to be "sacred trusts of civilization," but the success of the trust may be open to question. The most practical plan doubtless consists of a careful preservation and extension of a policy long supported by the United States and given significant reaffirmation at the Washington Arms Conference, namely the policy of the Open Door. Such a policy involves a minimum of interference by one nation in another's internal affairs. It does not attack the existence of the system of colonial possession and other extraterritorial economic activities. But it attempts to make the system fair, it is a policy, not of equality of possession, but of equality of opportunity, preserving the necessary and natural individualism of nations as of persons while attempting to insure justice. But it is no quick panacea and even with its full enforcement it could not be expected that certain nations by reason of their extraterritorial activities would not obtain relative economic advantage. In any event no intelligent understanding of world

⁴⁷ "The Problem of the Tropics," in *Christian Science Monitor*, May 15, 1922.

economy is complete without a consideration of the presence of this phenomenon of economic imperialism which in one form or another exists by reason of the very nature of the economic order of the world. Indeed this order, the fundamentals of which are to be analyzed in the immediately succeeding part of this study, is perhaps nowhere more visibly demonstrated in its political and economic results, than in such imperialism.

PART TWO

The Structure of National and World Economy: Its Industrial Basis

CHAPTER VI

NATIONAL ECONOMIES AND WORLD ECONOMY

THEIR NATIONAL AND INTERNATIONAL STRUCTURE

THE ECONOMIC position of a nation among other nations, and the general economic interrelation of all nations, are most familiarly measured in terms of international trade, and in a sense such international trade is the common denominator, or rather the combined result, of all other international economic activity, since shipping and even financial processes are primarily its auxiliaries and since even such a thing as payment of interest on foreign investments in the last analysis frequently takes the form of shipments. However, exports are first of all determined by industries, and imports, though hinging upon consumption, are not only directly determined by industries in some other country but also indirectly conditioned by exports and therefore by production in the importing country; simply stated, to sell there must be production, and to buy there must be selling and, again, production.

Consequently, in the modern attempt to account for international trade and the policies which evolve from it, it is

of first importance to analyze the interrelations of the industries of nations. A superficial though perfectly valid way of doing this would be to point out that innumerable industries within the various countries of the world are directly dependent upon imports of raw materials and even of food-stuffs to sustain the working population, and upon exports of their surplus beyond the amounts of output needed for domestic consumption. There is no doubt that a list of the chief industries of the leading countries with a statistical indication of the degree of such dependence upon imports and exports, and therefore directly or indirectly upon foreign trade, would impressively demonstrate the truth of this well recognized principle. But the case is fundamentally more complicated and the industries of the world are so intimately bound up with other factors, both domestic and foreign, that an analysis of the industrial interrelations of nations as a basis for analysis of world commerce and other processes and policies in world economy is not complete without taking these other factors into account. The most basic way of making such a study is to analyze the industries in their general setting, that is, as a part of national economic systems. National industrial structures may be looked upon as the framework of national economies, and the latter may be examined in their basic make-up and in their relation to those of other countries. It is in such a comprehensive examination of the relations of one national economy to others that there may be obtained a view of the fundamental characteristics of the international aspects of industry, and, consequently, of world economy, of which industry is the basis and trade, and also shipping and finance, are the connecting processes.

INDUSTRIAL STRUCTURES

Approaching the matter in this way, it may first be recalled briefly, for fuller analysis later, that the industrial structure of a country is determined by many primary factors, such as natural resources and other geographic conditions and the existing character and quantity of the so-called economic factors in production, land, labor, capital, and enterprise — these geographic and “pure economic” factors in many senses overlapping, as in the case of resources and land, and population and labor.¹ On the basis of the operations of these factors, industries and systems of industry in physical fact divide themselves into various types

(1) An initial distinction is that between (a) primary and (b) secondary industries, the former, such as agriculture, mining, and forestry, producing raw materials and foodstuffs, the latter producing fabricated articles, whether by (1) simple manufacture such as refining, tanning, or canning, or by (11) complex manufacture as in the production of textiles and steel products

(2) Industries may be (a) intensive or (b) extensive, according to whether little or much land is used in proportion to labor, capital, and enterprise. Manufacture is generally more intensive than agriculture and the extractive industries, but there are varying degrees of intensiveness or extensiveness in the latter, for example the raising of sugar cane is ordinarily extensive when compared with the production of sugar beets

¹ The question may be raised whether the controversies of economic thought concerning the number and functions of the “factors in production” might not be clarified by a more frequent reference to and realization of their physical character. Ultimately all factors are either (1) environmental or (2) human, and even this division is arbitrary, since man is a part of the environment, although by adapting himself to that part of nature extraneous to himself he appropriates and utilizes it, and, in a measure, controls it, in the broadest sense it is this process which is industry.

(3) There is the difference between (a) a one-product system or a system in which one or a few products greatly predominate, such as that of sugar cane production in Cuba or coffee production in Brazil, and (b) a diversified system, such as that of the leading manufacturing countries. If a country has a great natural variety of resources it may possess a considerable degree of diversification whether it has developed much manufacturing or not, but ordinarily prevalence of primary production tends toward the single-product or few-product system, whereas the development of secondary industry tends to bring diversification.

(4) There is the further difference between the material industries and those which might be termed industries of the economic superstructure, that is, between (a) industries producing goods and (b) industries producing services. Many, though not all, of these services are auxiliary to material industry and trade, primarily, it might be claimed, transportation and finance have been developed to facilitate trade or the material industries producing goods for trade. It is true that primary industry requires such services, but the service industries tend to reach their largest and most complicated development in countries where the secondary industries have been most highly developed, probably for the reason that in such countries there is commonly the greatest accumulation of business capital, which has been necessary for the development of both secondary and service industries. These service industries might be termed the tertiary ones.

Finally, by taking these various industrial categories into account there may be made a broad distinction between countries of (1) industrialized national economy and of (2) frontier national economy. In using these phrases, the term industry is employed in its narrower sense as denoting manu-

facturing industries (and this distinction in the twofold usage of the term industry should be constantly borne in mind), and by frontier country is not necessarily meant a geographically new country, although many of them are thus new, but rather a country at or beyond the present frontier of greater economic development. A more accurate phraseology might be (1) *countries of simple economy* and (2) *countries of complex economy*, but the former terms may be used because of their nearer approach to familiar terminology. Nations, therefore, in their industrial structures may be broadly classified according to this category, the industrialized ones being usually marked by a predominance, though of course not exclusive presence, of secondary production, of intensive production in manufacture and largely also in agriculture, of industrial diversification, and also by the possession of a considerable economic superstructure containing a high development of service industries. It is true that not all countries can be so grouped, that in any case there are exceptions to the prevailing characteristics, and certainly that no country has become one hundred per cent industrialized, to the complete exclusion, for example, of all primary industry. It is also true that industrialization is setting in to some extent in many hitherto frontier countries, partly as a result of extensions of capital and enterprise from the truly industrialized countries.

Nevertheless, this broad distinction is the most signal one in the world's industry, and it will be of value to illustrate it by reference to several specific cases. The United Kingdom is doubtless the leading example of a country with a complex national economy, not necessarily in the sense that such a thing as its total output of manufactures is the largest in the world, although it is one of the largest, but in the proportionate sense that its industrialization is the most

concentrated and is most characteristic of its entire system. Indeed, with some exceptions northwestern Europe is so generally developed along these lines that it is sometimes referred to as the world's workshop. On the other hand, South America is a region of prevalence of the other type of industrial structure. Consequently, the economic fabric of the United Kingdom as an example of a highly important industrialized country, that is, of complex national economy, and of Brazil as an example of an economically frontier country, that is, of simple economy, of special importance in one branch of world trade, may be described in somewhat general terms for illustrative purposes. Following that, in a subsequent chapter, the national economy of the United States may be examined in some detail, for this country appears to have been undergoing a gradual transition and an analysis of this transition will more fully reveal the fundamental contrasts in types of national economy and the fundamental ways in which they contribute to international economy.²

THE NATIONAL ECONOMY OF GREAT BRITAIN

The British Isles,³ with limited area and resources, have an unusual national economy, based upon an industrialization

² Compare Marshall, Alfred, *Industry and Trade, A Study of Industrial Technique and Business Organization and of their Influences on the Conditions of Various Classes and Nations*, London, 1919, while in no sense developing the concept of organic economic entity, that work makes interesting contrasts of industrial characteristics, as, for example, in Book I, Chapters II (Some General Relations between Industry and Trade) [treated on a national and international scale], III (Foundations of England's Industrial Leadership Her Drift toward Mass Production), IV (Britain's Industrial Leadership Its Long Freedom from Change), V (Britain's Industrial Leadership under Strong Challenge), VI (The Industrial Leadership of France Individuality and Refinement in Production), VII (The Industrial Leadership of Germany Science in the Service of Industry), VIII (The Industrial Leadership of the United States Multi-form Standardization).

³ Including Northern Ireland.

unsurpassed in intensiveness and a foreign trade ordinarily unequaled in magnitude ⁴ Coal and iron are the only major raw material possessions. Production in the world's most important manufacturing industries, such as iron and steel, is not unrivalled, with the possible exception of textiles it is mostly exceeded by that of certain other countries and at least by that of the United States. Britain's first place in world trade is due primarily to her ability to export so much of the goods which she produces largely by means of her imports of foodstuffs and raw materials, this process being supported by the world's most extensive empire and by such auxiliaries as a widespread system of foreign investments and international banking and a merchant marine greater in tonnage and traffic than that of any other nation.

The entire British Empire is vast in land area, covering more than a seventh of the world total and more than twice as much territory as the United States, but the United Kingdom alone is relatively small — the area of the United States is about thirty times as great. The United Kingdom's population is neither extremely small nor extremely large; it is somewhat less than half of that of the United States, but it is large in proportion to area. The physical geography of the islands is favorable with respect to trade and manufacturing rather than raw material production, it is commercially strategic.

Fundamental British economic advantages may be broadly summarized as follows

⁴ Cf. (British) Board of Trade, *Foreign Trade and Commerce*, and *Statistical Abstract*, also sections on United Kingdom in Whitbeck, R. H., and Finch, V. C., *Economic Geography*, N. Y., 1924, U. S. Department of Commerce, *Commerce Year Book*, U. S. Department of Agriculture, *Geography of the World's Agriculture*, and the *Agriculture Year Book*, U. S. Geological Survey, *World Atlas of Commercial Geology*, Roush, G. A., *The Mineral Industry*, N. Y., annually, *Statesmen's Yearbook*, Chisholm, G. G., *Handbook of Commercial Geography*, Bartholomew, *Oxford Economic Atlas*

(1) Geographic: (a) good climate, cold enough to be invigorating, but not cold enough to impede industrial progress, and particularly favorable in specific ways, as in the case of a long working day and of the humidity facilitating textile working, (b) abundance of coal and originally relatively large supplies of iron (though iron ore must now be imported), (c) coincidence of these deposits and manufacturing centers; (d) proximity of industries to coasts on all sides, favoring outward shipments of coal and manufactures and inward shipments of imported raw materials, (e) an irregular coastline with a consequent multiplicity of good ports; (f) an accessible insular location, facilitating shipping connections with regions of concentrated population and intensive economic activity such as western and Baltic Europe, with the Mediterranean—the historic “cradle of commerce,” and in general with America, Africa, and the East.

(2) Political and social. (a) an extensive empire, helping to furnish supplies of foods and raw material and a market for finished products; (b) comparative labor efficiency (though labor problems have recently been acute); (c) origination and high development of many mechanical inventions, (d) concentration of population aiding industrial organization and functional division of labor; (e) extensive use of the English language throughout the world, assisting in export marketing

(3) Economic. (a) economic maturity, with an accumulation of capital for investment at home and abroad, (b) a well-developed system of internal transportation; (c) a large merchant fleet, with relatively low operating costs; (d) an extensive system of international banking, (e) long-time establishment of import and export branches abroad and of various foreign commercial connections

To an unusual extent these factors are interrelated.

Thus, the large exports of coal supply outward cargo and balance an otherwise unfavorable load-factor in shipping, foreign industrial investments, as in railways, mines, and plantations abroad, help to secure export markets for manufactures and in some instances imports directly; interest on foreign investments and returns on shipping, insurance, and banking services pay for a surplus of imported goods and transform an "unfavorable" merchandise trade balance into a normally adjusted total balance of payments. In short, industry, trade, shipping, and finance mutually assist in economic success. Great Britain, however, is not without fundamental economic disadvantages. Her domestic agricultural possibilities are limited, her resources of major minerals, except for large amounts of coal and some amounts of iron, are negligible, water power resources, increasingly developed elsewhere for factory and transportation energy and especially for electro-chemical and electro-metallurgical industries, are comparatively not great in the islands; and her entire economic process is more vitally dependent upon an uninterrupted flow of imports and exports than that of any other commercial power. Great Britain's position is the antithesis of one of "economic isolation" and is the outstanding example of modern territorial division of labor and of the consequent necessity for world trade, and this peculiar national economy has naturally molded her tariff, financial, shipping, and other national and imperial economic policies.

Most of the factors in this position are of long standing, but striking changes have occurred in modern times. Prior to 1800 Britain was primarily an agricultural country and exported foodstuffs, the subsequent industrialization wrought such changes that no other nation is so dependent upon imported food. The cool, moist summer is comparatively unfavorable for the ripening of grain, British imports of cereals

in general and wheat in particular are the largest in the world." Such weather, however, favors grass, and the considerable acreage in hay and pasture helps to explain the importance of the livestock industries and the rather striking fact that Britain, agriculturally not self-sufficient and the world's largest importer of meats, produced approximately sixty per cent of her pre-war meat requirements at home; however, large quantities of feedstuffs, such as grains and oil seed cake, are obtained from abroad. Despite the fact that sheep generally thrive best in dry regions Britain's historic leadership in sheep-raising accounts for a centuries-old domestic production of mutton and wool, which is still not small; the fleeces are mostly medium and coarse and supply about one-fourth of the demand of the large woollen and worsted industry in the islands, the finer wools being largely imported. Excellent strains of cattle and sheep have been developed and breeding-stock is supplied to other countries. Ireland and parts of England are famous for their pork and dairy products, but these are outweighed by imports, notably from Denmark. Utilization of so considerable a proportion of the limited British agricultural resources for the meat industry, rather than for the generally more economical direct production of food crops, may be attributed to historical rather than geographical factors. Highly perishable foods, such as market garden and orchard products, are grown at home, but fruits are also purchased from distant points and the heavy importation of frozen and chilled meat from Australasia and Argentina is one of the outstanding features of world trade.

The one commodity in the export trade which largely offsets such imports from a traffic viewpoint is coal. This is also the one outstanding British mineral product, comprising about 93% of the total value of mineral output in

1920, as against 3% for iron ore and 4% for all other minerals. The reserves of coal are less than those of the United States, but it is estimated that they are sufficient to last 700 or 800 years at the present mining rate, the annual output is usually less than half that of the United States, but greater than in any other country, the exports are normally the largest in the world. There are more than 20 fields, 5 of which account for the larger part of the production, their location is highly favorable, many of them coinciding with the important industrial centers which they serve, and all of them, unlike the fields of the United States, being relatively near to ports—one chief pit-mouth loads ocean vessels directly. There is a variety of types, and the high quality of many of them places them in world demand for industry and transportation, as illustrated by the nearly smokeless coals used so widely for steamship fuel. Coal labor is relatively efficient; output per man per period is much less than in the United States, but this is probably due at least partly to greater depths of veins and comparatively smaller use of labor-saving equipment. In recent times the industry, in Britain as to some extent elsewhere, has experienced labor difficulties, workers having demanded higher wages and shorter hours, as well as a greater share in the control of the business, settlements have involved increasing Government regulation, but have not yet resulted in Government ownership. Such tendencies have appeared in other enterprises in recent years, to an extent sufficient to constitute a serious problem in British industry and transportation.

The huge coal exports facilitated by proximity of mine to port, by low cost of ocean transportation, and by demand for British coal types, as well as by uniformity maintained by unusually careful screening and grading, go to western European countries, and, to a lesser extent, to South America.

and other regions. In late war and early post-war years reduced output caused this trade to decline, and the United States' coal exports tended to supersede it, but with the reversion of American supplies more to domestic use and the recovery of British production the British trade was largely reestablished, although with somewhat more United States competition in South America, and with greater use of local supplies in outlying regions such as India, Australasia, and British South Africa. In addition to export sales for foreign industries and railways, large quantities of British coal are bunkered at home ports and at British coaling stations of which there is so considerable a world network. Aside from supplying power for the high industrialization at home, the large British coal trade has been extremely valuable, not only in helping to pay for imports, but especially in furnishing outward cargo for British shipping, this is a double advantage, for it balances the ocean traffic load-factor and is consequently basic in British shipping success, and also reacts favorably on the trade itself by making possible practically "ballast rates" on export coal.

While coal is, so far as domestic materials are concerned, the corner-stone of British national economy, it shares its honors with two other commodity groups the production of which takes a basic place in the economic structure of so many modern commercial powers — iron and steel and textiles. Great Britain is one of the leading producers and exporters of iron and steel, despite the fact that it ranks only sixth in iron ore reserves and below the United States and normally below Germany in production of iron and steel. However, in production it normally rivals France and Belgium, and its exports, formerly second to those of Germany, for a time after the war were largest in the world. The industry is an old one, in previous times having depended

on charcoal from the native forests for smelting, many of the products, such as the Sheffield cutlery, have come to enjoy a wide reputation in world markets. There are domestic ore deposits sufficient for about 40% of the present needs of the industry, and particular advantages in the development have included the abundance of limestone for use as a flux in smelting, the nearness of coal deposits and the proximity of production to export ports. However, for a number of decades the proportionate production of iron ore has slowly decreased, with increasing dependence upon ore imports, especially from Spain and Sweden.

The high development of the steel industry has in turn assisted in vessel construction. Great Britain's insular character and her extensive ocean trade early led to a demand for ships, which increased with the building of an empire. For a long period many wooden ships were built, although at times Britain was rivalled in this respect by other nations, and, for a while, by the American colonies and later by the United States. However, the earlier extensive British use of iron proved of advantage in the modern period and the British shipbuilding industry developed to unequalled proportions. During the World War the extraordinary American construction program was apparently of temporary significance, and after the War Great Britain again began annually to launch more than one-half of the world's merchant vessels.

Great Britain's domestic mineral resources do not extend much beyond coal and iron. The once-famous tin mines of Cornwall have been worked at least since the Twelfth Century, and for hundreds of years were the world's principal source of this metal, but the output is now relatively small and Britain must import from Malay and elsewhere. Copper, lead, zinc, limestone, building stones, clay, and salt are

mined in comparatively unimportant amounts. The only extensive distillation of shale oil in the world is in Scotland, but this does not materially lessen British dependence upon imports for large quantities of petroleum. Indeed, the operations of British industrial interests, directly or indirectly, in developing petroleum and other mineral resources in such places as Persia, the Dutch East Indies, and certain countries of Latin-America, are among the leading examples of modern industrial activity in relatively undeveloped regions carried on by the capital and enterprise of the more developed nations.

In a sense, Great Britain's textile industry resembles her iron and steel industry, even beyond the fact that it ranks with the latter in domestic and export importance. Indeed, it is more or less typical of all British manufacturing, in that it enjoys many of the natural British industrial advantages and in that it benefited by the initial introduction of mechanical inventions and of the factory system, with the earlier occurrence of the Industrial Revolution in England than elsewhere. It is the oldest major British industry, and began with wool, "the most characteristic product of the British soil for a thousand years," and with linen, but when the advent of the gin made cotton cheaper it became adapted to the change. In its cotton textile phase it centers in Western England, where the imports of American raw cotton are most conveniently landed, and where the damp atmosphere prevents the fuzzing of fine threads in the working—although in recent years artificial humidifiers have obviated this climatic restriction of the cotton textile process. Spinning and various kinds of weaving, as well as dyeing and printing, are carried on, but there is a tendency to produce the finer grades of cotton textiles, leaving the production of coarser types to countries whose supply of the raw material

is made cheaper by shorter hauls. All of the cotton, and over half of the wool, must be imported, the former chiefly from the United States, the latter largely from Australia, New Zealand, Argentina, and, increasingly, from British South Africa. Belfast, in Northern Ireland, is the linen center, but much of the flax for this industry is imported, notably from Russia (normally) and Belgium. Approximately a third of the value of British exports is represented by textiles, the British exports of such commodities are the largest in the world, and go to many places, including the important cotton-piece goods markets of British colonies and of China and other regions of the Far East, although the trade meets competition from that of other textile manufacturing countries.

Thus coal, iron and steel, and textiles represent the largest British industries and account for a surprisingly large percentage of British exports. Yet no picture of the situation is complete without mention of the great variety of other fabricated articles, such as leather and rubber goods, chemicals, pottery, glass, food products, clothing, machinery, and vehicles, none of which can be considered of minor importance.

This whole basic industrial system of Great Britain has been supplemented to an unusual extent by a complex economic superstructure which has rendered it ordinarily both successful and stable. This is well illustrated in finance. The fabric of a central banking system centers around the Bank of England, with normally beneficial results for government finance and commercial credit, the currency system is on a gold basis, even though the World War caused temporary abandonment of gold redemption. On the basis of this domestic financial structure a widespread system of foreign banking, with branches throughout the world, has been built up, and this, added to the large trans-shipment

trade focusing in London, has made London the greatest center of international commercial banking, so that large volumes of transactions even between other countries have been based on London exchange. With the establishment (1913) and development of the Federal Reserve System in the United States, supplemented by the Edge Law for promoting foreign banking, and with the post-war position of the United States for a time as a nation with the largest gold supply, the only maintained gold redemption, the only stable exchange, and the greatest amount of foreign credits, there was in post-war years an increased demand for dollar credits and a tendency for New York to displace London in world finance. But this has been by no means complete, and the British foreign banking system has been fairly well maintained. Nor has commercial credit been the only factor in this British importance in international finance. For many years before the World War, Britain's relatively complete economic development led to a surplus of capital which helped to make her the greatest creditor nation, by means of loans to foreign governments, some of them involving advantageous industrial concessions, and by means of the financing of purely private undertakings abroad, such as mines and railways in Latin America and the Far East, so that Britain had the largest foreign investments of any nation. During the War these investments declined greatly, many of them being withdrawn to finance the War, but it is to be observed that a considerable proportion (approximately one-half) of the now huge investments of the United States are in governmental war-loans rather than economic enterprises, and that British investments in the less developed parts of the world are still important and are again increasing.

The service of Great Britain's unique attainments in

world finance to her position in world trade, by facilitating commercial transactions and by helping to create markets for manufactures, is no more obvious than the trade advantage furnished by her mercantile marine, which, because of British dependence upon overseas commerce, is essential. This is the largest merchant fleet in the world, is composed largely of home-built ships, is bunkered largely with British coal at the many British fueling stations, is operated relatively cheaply, and has an extensive traffic, not only in and out of home-island ports, but also with the many ports of the empire, and part of the traffic is entirely between foreign ports.

All of these facilities support Britain's foreign trade, which is the largest of any nation. As indicated by the industrial system, approximately $\frac{4}{5}$ of the commodities sold abroad, by value, are manufactured goods, not including re-exports, and nearly $\frac{3}{4}$ of the exports consist of three groups: cotton goods, ranking first; iron and steel, ranking second, although if machinery and vehicles are included this group ranks even before cotton textiles; woolen goods, ranking third. The export of coal is large in value, and of first importance in weight. Other exports include an almost unlimited variety of manufactured articles corresponding to the diversity of the British manufacturing industries. The import trade is also indicated by the type of industrial development, foodstuffs and raw materials for manufacturing each making up about 30 to 40% of the total. Raw cotton is normally the largest import, and other highly important purchases abroad include wheat and flour, meats, dairy products, wool, sugar, lumber, and rubber.

Favorable location and the extensive empire and merchant marine have helped to make London the world's greatest entrepot, reexports constituting about $\frac{1}{5}$ of total British

exports These commodities originate largely, although not exclusively, in the Far East and Africa, especially in the British Colonies, and include wool from Australia and South Africa, rubber grown in British Malaya and the Dutch East Indies and shipped from Singapore, tin mined in Malaya, Egyptian long-staple cotton, tea from India and Ceylon, and vegetable oils out of Asia and Africa The traditional grip of colonial power home-lands on the trans-shipment trade in colonial products tended to decline during the World War, when the scarcity of tonnage diverted shipments more directly to countries of ultimate consumption, such as the United States, but subsequently London, like the trade centers of Holland, has regained much of this commerce that had been lost

The entire trade of Great Britain is widely distributed, but approximately one-half of it recently has been carried on with six countries — the United States, British India, Argentina, Australia, Canada, and France, by far the largest imports have been from the United States, these exceeding the combined imports from all British colonies, while the largest exports have gone to British India Denmark, the Netherlands, and Belgium also have been important sources of supply, and before the World War trade with Germany was very large Naturally enough, the chief sources of British purchases are producers of raw materials and food-stuffs, three of them — Australia, British India, and Canada — being parts of the empire, but it is a somewhat significant fact that the trade with all the colonies and dominions makes up only about $\frac{1}{3}$ of the total trade

That Great Britain's foreign commerce involves a large excess of imports of goods is to be expected, but that this is ordinarily well adjusted is of final significance. The value of merchandise purchases greatly exceeds that of merchan-

dise sales, but this excess is offset by invisible exports, bringing back interest and profits on foreign investments, and payments for services such as those of British banks and ships, so that there has normally tended to be a credit margin in the total balance of payments, making possible further foreign investments. The "unfavorable balance of trade," therefore, does not point to a basically unfavorable economic position, but indicates rather a nation that lives by trade and by realization of a remarkably high degree of regional specialization in production, and the part payment for imports of goods with the proceeds of other enterprises is a striking evidence of Great Britain's remarkable coordination of all industrial and commercial activities, in both domestic national economy and international economic affairs.

THE NATIONAL ECONOMY OF BRAZIL

The national economy of Brazil is a typical frontier one, characterized by a predominance of primary production and particularly of one primary industry, namely coffee growing. The total area is large, being more than $3\frac{1}{4}$ million square miles. The population is approximately 31 million, of which less than $\frac{1}{6}$ is located in Rio de Janeiro, São Paulo, Bahia, Pernambuco, and other urban centers. The total mineral resources are reported to be very great, but these are largely undeveloped, the principal known deposits being iron and manganese. The textile industry possesses somewhat more than 60,000 looms and over $1\frac{1}{2}$ million spindles, but manufacturing is in general comparatively little developed. Considerable quantities of beans and potatoes are produced, largely for domestic consumption, but the crops of wheat, rye, and barley are small and insufficient for the home market. Agricultural products of some importance

include sugar, cotton, tobacco, cacao, corn, and rice. However, the one leading cash and export crop is coffee.⁵

Coffee, apparently originating in Abyssinia and later grown in Arabia, is now consumed very widely throughout Europe, the United States, and other parts of the world, is produced in many tropical regions, and is an important item in international trade, the considerable inflexibility of the demand for which tends to remove it from the category of pure luxuries and to place it in the foodstuff group of commercial classifications. The plant requires heat, moisture, and shade, and other conditions which account for the localization of its production to such a large extent in São Paulo, Rio de Janeiro, and other states of Brazil. Machines are used in hulling, but the picking of the berries is largely a hand process. Aside from suitable climate and soil, and sufficient inexpensive labor, Brazil enjoys special advantages in its production at comparatively low cost, these including simultaneous ripening of the berries which reduces picking labor, and well-developed transportation facilities for carrying the product to Santos, Rio, and other ports; but the average grade of the crop is not so high as in certain other countries.

The Brazilian coffee crop is much the largest in the world, and although it was over $2\frac{1}{4}$ billion pounds in 1915 and less than 1 billion in 1918 its average size normally has been in the neighborhood of $1\frac{1}{2}$ billion pounds. Venezuela and Colombia also find coffee their chief export, and these countries as well as Guatemala, Salvador, Haiti, and the Dutch East Indies have crops which as a rule have varied from 70 to 150 million pounds, while Mexico, Porto Rico, British India, Costa Rica, Nicaragua, Arabia (exports through Port of Aden), Ecuador, the Dominican Republic,

⁵ U. S. Department of Commerce, *Commerce Yearbook*.

Hawaii, and Dutch Guiana, are also producers. But none of these crops has approached in size that of Brazil, which normally contributes approximately $\frac{2}{3}$ of the world total. So important is this one product to Brazil and so great is the economic disadvantage suffered when its price declines, that there has been evolved a somewhat elaborate system of government intervention in the market with a view to price stabilization, a process known as coffee valorization.⁶

While coffee is Brazil's predominant export, there are also fairly important outward shipments of other raw products, such as hides and skins, sugar, cotton, cacao beans, oilseeds, rubber, beef, tobacco, and herva mate, all of which are equally typical of the character of the country's production. But coffee normally constitutes 50 to 60% or more of the total value of exports. Much the largest proportion of this, as of exports in general, goes to the United States, and countries of western Europe such as the United Kingdom, France, and Germany comprise the second most important market. The chief imports, in turn, are iron and steel products, refined petroleum products, coal, cotton textiles, machinery, and electrical apparatus, and other commodities which, with the exception of coal and wheat, are largely typical purchases of a country in which fabricating processes are not highly developed. The export coffee is hulled, but the business of roasting, blending, grinding, and packing is mostly carried on in the countries of importation, so that even this process of simple manufacture is not greatly developed in the country of production.

Thus Brazilian national economy is characterized by a predominance of distinctly primary production, and consequently by an export trade consisting largely of raw

⁶ *Vide* subsequent chapters on foreign control of raw materials.

products and an import trade comprising largely manufactured articles. In these outstanding ways it stands in contrast to that of the United Kingdom and other industrialized, or complex-economy countries, and serves as an illustration of the interrelation of the different types of national economy which, through international trade, of necessity are coordinated in the world's industrial structure.

TRENDS IN THE TYPES AND RELATIONS OF NATIONAL ECONOMIES

The question arises as to whether such a differentiation of national economies is likely to continue indefinitely. There are some indications that it will not, or that the differentiation will be less sharp. National policies are frequently designed to lessen it. To a certain extent all protective tariffs, insofar as they are applied to manufactured products in countries of frontier national economy and to raw products in countries of industrialized national economy, are cases in point. Thus far such tariff protection has not been general, for example industrialized countries have so greatly needed foodstuffs and raw materials that they have placed upon such articles either no import duties or import duties which were comparatively few and small. But there have been outstanding exceptions, and agriculture has by no means entirely lacked tariff protection in industrialized countries. Other phases of foreign trade policy, such as the one-time German export bounties on beet sugar, have had similar effects. In general, however, the economic policies of the leading countries of complex economy may be said to have recognized the predominant importance of the industrialization and to have been planned largely for its protection and encouragement, and this includes both the negative policies of trade restriction and the

positive policies of export trade promotion. On the other hand, in the years immediately following the World War, there were evidences that these leading industrialized countries were reacting toward a policy of economic self-sufficiency which would necessitate a greater emphasis upon primary industries. Such evidences appeared in both foreign trade measures and internal industrial policy. Germany, traditionally inclined to preserve agriculture along with manufacturing to a somewhat greater extent than other leading industrialized nations, and already pre-eminent in intensiveness of agriculture, was reported to be endeavoring to increase her previously very high yields per acre of staple crops and to take other steps for the preservation of a well-balanced economy. A similar trend was observed in France.⁷ In Great Britain the tendency was less national and more imperial. The Safeguarding of Industries Act and other reversions toward protection in the United Kingdom did not stress primary production. But in the investigations of the Dominions Royal Commission of as early as 1916, in the post-war Imperial Conferences, and in the renewed efforts to promote production of essential raw materials throughout the empire or under imperial ægis (illustrated in the cotton growing campaign in Egypt and the Anglo-Egyptian Sudan), as well as in numerous preferences and other forms of trade control in British regions, were evidences, not of an attempt to make the United Kingdom economically self-sufficient but rather

⁷ "Devoting her own industrial activity to her own needs and subordinating almost everything industrial to an intensive development of agriculture so that she may become a self-contained nation — as nearly independent of the outside world as it is possible for any important country to be — is a new policy in France which will become more apparent as time goes on" — "A New Orientation of the National Economic Policy of France," in *The Economic World*, September 9, 1922

so to round out the economy of the empire as a unit as to make that unit more self-contained

On the other hand, without regard to political boundaries and government measures there appeared a natural post-war tendency toward the growth of industrialization in regions where it had been little developed. This was partly a cause of the increased severity of international competition in manufactured products, although such competition was also partly due merely to the temporary decrease in world purchasing power. But the war, by temporarily removing the products of complex-economy countries from frontier markets in many instances had accelerated the pre-war tendency toward the diffusion of industry. Entirely aside from the large advance toward more complete predominance of manufacture in the United States, the increase of industrialization in Canada, Australia, and New Zealand, and the development of the manufacture of textiles, leather products and other fabricated articles even in some instances including iron and steel products, together with other beginnings of real industrialization in such regions as the Far East and Latin America, have demonstrated a noticeable trend toward industrial diffusion.

This development, however, appears to have fairly definite limits. Broadly speaking, it has been simply a continuation of the localization of manufacturing industries in regions where there is also a localization of primary industries producing the respective raw materials, a movement made possible by the continued increase of transportation facilities and of diffusion of business capital, machinery, and industrial methods. It may lead to the growth of new industrialized nations and of somewhat more diversified national economies. Such economies may tend to be superficially somewhat less distinctive in type. But it is limited

by basic, natural conditions, such as those of supply of the requisite quantity and specialized type of labor, and especially of area, resources, and climate. However widely industrialization may spread, — barring such a development as the conversion of all material production to a laboratory basis, — it cannot completely overcome the natural economic differentiation of regions, and territorial specialization in production will necessarily continue to differentiate national economies in such a way as to cause their integration not only by the natural process of international commerce, but even more significantly by the extension of enterprise. This is especially borne out by a closer examination of developments in those countries whose structures have recently shown most striking progress toward the type of complex national economy.

CHAPTER VII

THE NATIONAL ECONOMY OF THE UNITED STATES

ITS ECONOMIC CONSTITUTION AND INTER- NATIONAL POSITION

INTERNATIONAL economic relations are too frequently viewed as isolated processes unrelated to industrial structures, or at best as phenomena to be superficially explained by descriptions of products and markets or in terms of costs of production and purchasing power. A more comprehensive view is to be obtained by observing the extent to which the foreign trade of a nation and its other external economic relations, as well, incidentally, as many of its domestic economic conditions and problems are expressions of its organic economic constitution. It is therefore, worth while to analyze the national economy of a nation such as the United States, with particular emphasis upon its industrial structure, to note the underlying trend in the evolution of this economy,¹ and in the light of such an analysis to reexamine its economic position with respect to other nations.

TYPES OF NATIONAL ECONOMY

Such an analysis may be approached in the light of a fundamental contrast in types, namely, a contrast between the frontier or simple and the industrialized² or complex national economy, as briefly indicated and illustrated in the preceding chapter. The complex type is illustrated in the case of Great Britain and economically similar nations, the simple type in the case of countries such as Argentina and Brazil. The United States has a total of manufacture not less than that of the United Kingdom, but from the viewpoint of relative importance of manufacturing industries and of other ratios in economic structure, it may be classified as a country which is in process of evolution from the frontier to the industrialized type. This fundamental change in the economic make-up of the United States is of large significance. It may be traced in the structure of material industry and in many other economic phenomena, such as those of population, these various aspects of the economy may be considered here in order to discover the trend and to indicate the resulting change in the basic economic relation of this country to other units in world economy.

GEOGRAPHIC FACTORS

RESOURCES

The effect of geographic conditions upon economic affairs, including the relative economic position of nations, is in part so obvious that the fundamental influence of environment upon national economy, and the various direct and indirect aspects of that influence, have not been systemati-

² In the following pages "industry" will be used in its comprehensive sense, as including the various types of production, "industrialized" will be used to indicate a condition in which the manufacturing industries predominate over the primary industries.

cally emphasized in the past, although in recent years they have been given increased attention both by governments and by scholars. Location and coast-line and natural harbor facilities do much to condition a nation's foreign trade and shipping; area, resources, topography, and climate are of primary and manifold importance in determining its industries which "territorial division of labor" or regional specialization in production, together with "universality of consumption," is the first reason for the existence of external as well as internal commerce. Most obvious is the determination of a nation's industries, and consequently its exports and imports, by its stock of material resources.⁴ Further, when a resource is limited in quantity, unevenly distributed, and of strategic industrial importance, there is frequently special effect upon international economic and political relations, as a result of governmental and capitalistic extensions sometimes spoken of as the "international struggle for resources", this is illustrated in references to "oil diplomacy" and in the recent agitation in the United States over what has been alleged to be "foreign monopolistic control of raw materials" such as rubber, tin, and nitrates upon which American import trade and manufacturing industry is dependent.⁵ In the case of the United

States, it may be observed that its combination of physical characteristics primarily accounts for its industrial and commercial structure and that its evolution with respect to such characteristics explains the trend of its economy. Its large area, its remarkable abundance and variety of resources, together with such factors as climatic ones, necessarily have made it, as a new country with a relatively small population density, an economically frontier nation. But its coal and iron, its growing population, and many others of these same factors also explain its industrialization, its development of a complex economy. While at a fairly early period in its history it naturally concentrated its attention upon the internal development of its resources, as this development proceeds in the direction of relative completeness, it once more thrusts economic attention outward, as in the case of the growth of manufacturing industries of the kind requiring foreign sources of raw materials and foreign markets for finished products, as is apparent in an analysis of its external trade.

GEOGRAPHIC CENTERS

The geography of the industrialization of the United States may also be traced in the emergence of new "industrialized" areas, that is, areas where manufacturing industries have assumed a large proportion in comparison with agriculture, forestry, and mining, as well as in the shift of certain mathematical "centers."⁶ The first settlements and developments

the World's Mineral Resources, A Series of Studies by Specialists, N. Y., 1920, Annals of the American Academy of Political and Social Science, *Raw Materials and Foodstuffs in the Commercial Policies of Nations* (by Culbertson, W. S., et al.), Vol. CXII, March 1924.

⁶ "Center of Population and Median Location and Centers of Area, Agriculture, Manufacture, and Cotton," 14th Census of the U. S., 1920, U. S. Bureau of the Census, 1922.

were, of course, in the east. The center of population has naturally moved westward, with very slight fluctuations northwestward and southwestward, from a point about 23 miles east of Baltimore in 1790 to a point in Owen County, Indiana in 1920, its westward trend, however, is almost equalled in significance by the fact that its movement from 1910 to 1920 was smaller than in any previous decade, namely, less than 10 miles as against 14 to 80 miles in previous decades. The centers of agriculture are variously computed, on the bases of number of farms, total area in farms, improved acreage, value of farm property, gross farm income, and production of cereals and other leading farm products. Although these centers of course have not moved uniformly, as in the case of the population the trend has been largely westward, with a somewhat general tendency toward a retarding of the westerly advance in the last one or two decades recorded to 1920. This recent retarding of the movement of centers of population and agriculture, as they approach the present center of area (in Kansas), is of little less significance than the westerly trend, since it would seem to indicate, not only that a geographically progressive internal development has taken place but also that this development is now tending toward a geographical equilibrium, that is is slowly approaching a kind of economic saturation point. This does not indicate that the general economic development will not continue territorially for an indefinite time to come, but it is significant of the course which that development will be likely to take in the future. The center of manufactures, computed on the basis of value of products is necessarily farther to the east than the centers of population and agriculture. In 1850, the first year for which it has been calculated, it was at a point about seven and a half miles from Mifflintown, in central

Pennsylvania, while in 1920 it stood at a point in Logan County, Ohio, its movement also having been largely westward. This movement has been traced for so few decades, and its mileage advance has been so irregular in these decades, that a trend other than its westward one is not so apparent. Thus in the period of rapid industrial progress from 1850 to 1860 it moved 100 miles, a larger shift than any subsequently registered, but from 1890 to 1900 it advanced only about 39 miles and in the total two decades from 1900 to 1920, only about 72 miles. Like the other centers, therefore, it has tended to move more slowly in recent periods, that is, has tended also toward equilibrium. From the viewpoint of internal factors in the "localization of industry," such as proximity to raw materials, availability of labor supply, transportation systems, and proximity to markets, a considerable continuation of its shifting might be expected, but to the extent to which industrialization increases the relative importance of foreign trade there will be a tendency for it to remain moderately close to external transportation facilities for cheaper importation of exotic raw materials and exportation of fabricated products. In any event the shift, mainly westward, and slightly southward, has been significant in the process of industrialization.

But an even more striking aspect of this process has been the growth of new manufacturing belts. To the historic New England-Middle Atlantic area, has been added the Chicago-St. Louis area, and more recently the new belt in the old South, where in addition to tobacco manufacturing there has been an unusually rapid expansion of the cotton textile industry, of water-power conversion, and of many other industries associated with manufacturing, including those of coal and iron at Birmingham, the "Southern Pittsburg." The industrialization of the United States

has been nowhere more vividly shown than in this region in recent years, with respect alike to the basic changes in production and to the various consequent effects as to finance and trade, and even attendant social conditions, in the economic structure

ECONOMIC FACTORS

Economic and geographic factors in the economic structure of a country are interrelated, as in the case of land. Industrialization, however, may be traced in a comparison of the relative position of the items in the familiar category of economic factors in production. Other things being equal, it is more or less obvious that agriculture demands a larger proportion of land and that in it labor, capital, and enterprise are relatively of less concentrated and specialized importance, since in the case of the average-sized unit the farmer is frequently his own capitalist, partly or entirely his own laborer, and his own entrepreneur. Consequently in countries where there is an abundance of land and rent is correspondingly low, there is a natural tendency toward a predominance of that industry, together, in many instances with development of the extractive industries such as lumbering and mining with the aid of imported capital. On the other hand, manufacturing requires relatively little land per unit of product, and in its modern form there is a decided concentration of capital, labor, and enterprise, a concentration made more apparent by the personal separation of these factors among different individuals, that is, there is not only a functional division of labor among different workers but also an economic-factors-in-production division of labor. Accordingly manufacturing, other things being equal, will tend to predominate in those economically progressive countries where there is a relatively

large supply of these three factors and a relatively small supply of land. Indeed, assuming economic progressiveness, as population increases, the very pressure of labor supply upon the limited area tends to produce this effect, unless other processes such as emigration prevent it. These contrasts are well illustrated in a comparison of the economic system of Great Britain and other European industrialized countries with those of frontier countries such as Argentina and Australia. In turn it is clear that the relative alignment of these basic economic factors in the United States has been such as to account for its industrial characteristics in its past history, and also that this alignment is gradually changing. Land, at one time available in almost unlimited quantity, is becoming proportionately more limited.⁷ The growth of population⁸ offers a larger labor supply. The increased proportion of capital is strikingly demonstrated in the World War change of America from debtor to creditor position as a nation. It is such changes in basic conditions which make American industrialization almost inevitable.

NATIONAL WEALTH AND INCOME

INCOME

The structure of the national economy finds one form of expression in the national wealth and income and in such resulting phenomena as the standard of living. The national income of the United States, as is commonly known, is very high. In 1914 in total amount it was more than three times that of the United Kingdom and was per capita

⁷ Cf. "The Utilization of Our Lands for Crops, Pasture, and Forests," by L. C. Gray, O. E. Baker, *et al.*, *Agriculture Year Book*, 1925, U. S. Department of Agriculture, 1924, pp. 415-506. Also, "Land Utilization in the United States: Geographic Aspects of the Problem," by O. E. Baker, *The Geographical Review*, Vol. XIII, No. 1.

⁸ *Vide* subsequent sections of this chapter.

more than 25% higher than that of Australia,⁹ the next highest countries. Needless to say, the total national income varies so greatly with many different factors, such as the size of the country, its possession and development of natural resources, and its development of an economic superstructure which obtains a profit partly by foreign transactions, that no categorical contrast can be drawn between the frontier national economy and the industrialized national economy in this regard. The same is true with respect to per capita income, except that this of course tends to be lower when the population expands unless such expansion is offset by developments of the type just mentioned — which to a considerable extent it usually is in the cases of successful industrialization. Thus the pre-war per capita income of Australia was very high, but it did not greatly exceed that of the United Kingdom, and that of Canada was rather high but did not vastly exceed that of France and Germany. Certain recent estimates, adjusted to offset price fluctuations, have indicated a tendency for the actual national income of the United States, per capita and in total, to decline from about 1916 or 1917 to the time just preceding the sharp post-war depression of 1920-21,¹⁰ but the period in which this estimated decline took place was too short and abnormal to furnish a satisfactory index. Prior to that time and apparently since then, the per capita national income nominal as well as real, has increased.

Of most interest from the present viewpoint, however, are the sources of the national income. If for the purposes of such analysis, the estimates of the National Bureau of Economic Research be accepted,¹¹ and such data be taken as

an index, the half-way mark of industrialization appears to have been reached, not in the decade 1910-20, but prior to that. According to those estimates, as early as 1909 manufacture was contributing 30% of the national income as against 16% from agriculture and 3% from mineral production, while manufacture and "service businesses" such as banking and transportation together were apparently contributing a still larger share, perhaps one-half.¹² On the other hand, no extremely sharp contrasts appear for the decade 1909-1919 or 1910-1920, the percentages for both agriculture and manufacture increased in 1918 over both 1914 and 1909, but this was before the price readjustments of 1920. Nevertheless, the estimate apparently reveals the predominance of manufacture and secondary industry in general. Indeed there is considerable logic in assuming that if any large increase in the total or per capita national income of the United States occurs in the future it will be brought about less and less by a continued expansion of primary industries based upon exploitation of natural resources and more and more by a continuation of the fundamental trend toward the erection of a superstructure of secondary material industries and of industries producing services, such businesses as a whole operating upon a basis of both internal and external activity.

WEALTH

There are, of course, many difficulties involved in computing the wealth of a nation. Some of these difficulties are purely

¹² A large percentage for "unclassified industries and miscellaneous income" prevents an exact apportionment according to the above category. Note. It is true that income proportions represent only relative values placed upon the various goods and services, but the ratios of national economy *are* matters of value, value is the only single measurement, the only common denominator.

mechanical as in obtaining comparable categories as a result of census returns. Others are not unlike the problems which arise in the attempts at valuation of regulated public utilities for the purposes of fixing reasonable rates and fair returns. These latter include a choice between market value, original cost, reproduction cost new, and replacement cost less depreciation, the market value method being inaccurate on account of its purely psychological element and its inclusion of unearned increment and what might be termed undeserved decretion, the original cost method particularly difficult due to inadequacy of records and fluctuations in value of the monetary unit, reproduction new involving an imaginary conception, and the reproduction-in-existing-condition method, while in some ways most logical, necessitating very arbitrary and varying assumptions concerning depreciation. But even more serious than these difficulties of evaluation, when applied to the wealth of a nation, is that of choosing between private wealth, as registered, say, in private property in a nation where private property prevails, and social wealth.¹³ Social wealth, or the complete wealth of a nation, if fully measured, would properly embrace many tangible items which cannot be measured, such as latent mineral resources subject neither to present private ownership nor to exact geological computation, and many intangible and nebulous items such as free goods, like climate, and even national value as a going concern and national good-will in foreign business. A recent official estimate for the United States, which eliminates intangible and immeasurable items and proceeds upon a sort of business-inventory method of measurement, indicated

¹³ For a brief description of certain of these difficulties, *vide* Bureau of the Census, *Estimated National Wealth*, U S Department of Commerce, 1924, foreword by W. I. King, pp. VII-XIII.

that such national wealth of the United States was a little over $88\frac{1}{2}$ billions of dollars in 1900, somewhat more than 100 billions in 1904, somewhat less than $186\frac{1}{3}$ billions in 1912, and more than $320\frac{4}{5}$ billions in 1922¹⁴ — a figure much higher than that for any other nation. However, it is pointed out that the 1912–1922 increase of 72.2%, in view of the change in the value of the dollar which by averaging various price indices may be set at about 55% for the same period, probably represented only an approximately 11% increase in actual wealth. Estimates for earlier periods are insufficient to discover a long-time trend and to compare it with growth of population, but it is not illogical to question whether, unless the tendency toward decline in the rate of population-increase becomes so marked as to result in an almost static condition of population, the present exceptionally high per capita wealth of the United States will increase to any vast extent in the future. Its absolute increase may result from a continued development of latent resources and of the entire economic superstructure of conversion industries, service industries, and finance (as in the continued accumulation of equipment and other capital), but such an increase will tend to be checked by such factors as the approach toward exhaustion of certain non-reproducible resources. Its proportionate decrease, that is, the decrease per capita, may be checked by the tendency of

¹⁴ *Vide* Table No. 1

NOTE National wealth as thus computed is very different from capitalized earning power. "One of the foremost academic authorities on life insurance in this country has recently stated that if all lives were insured for only one-half their capitalized earning capacity, the American people would be insured to the extent of 400 or 500 billion dollars, which far exceeds the estimates of their total property wealth, placed at less than 350 billion dollars. But the authority is aware of this, for he states that this estimate of the capitalized value of the current earning capacity of the adult population of the United States at an ordinary rate of interest would be several times the material wealth of the nation."

population itself to increase less rapidly. Of particular significance may be its increase or maintenance through a growing superstructure which, possibly deprived of certain natural resources through exhaustion, would come to depend increasingly upon foreign raw materials and foreign markets for commodities and investments and other services, as in the case of other industrialized countries. This by no means implies impending national poverty or anything remotely approaching it. It simply emphasizes a trend in the make-up of the national wealth and gives a further suggestion of the possibility of fundamental changes in the national economy which may link the latter more closely with that of other countries.

As for the different items constituting the total estimated national wealth, the classification available is not highly adapted to an analysis of the industrial structure. In 1922 as compared with 1912 there was a decrease in the proportion for railroads and their equipment (there were negligible railway extensions and appreciable abandonments during the period), and street railways and certain other public utilities. However, there were also decreases in the proportions of real property and improvements,¹⁵ of livestock, and of agricultural products, along with increases in the proportions of manufacturing machinery, tools, and implements, of farm implements and machinery, and of clothing, personal adornments, furniture, vehicles, and kindred property, and of manufactured products; and the decreases in the proportions of real property and improvements and of livestock, and the increases in the proportions of manufacturing equipment and of manufactured products, were

¹⁵ NOTE This item is not divided according to the use of the property, so that it offers no accurate contrast between types of industry, it is of only general significance in view of the general fact that land is a larger factor in agriculture and forestry than in manufacture.

in line with fairly consistent trends shown in a comparison of 1904 with 1900 and of 1912 with 1904. Within the limits of classification, and with certain exceptions, there are, therefore, some evidences in the changing forms of national wealth of the decline of the primary and the ascendancy of the secondary industries.

TABLE No 1

ESTIMATED NATIONAL WEALTH OF THE UNITED STATES.

<i>Classification of Wealth</i>	1900	1904	1912	1922
Total, in millions of \$	88,517	107,104	186,300	320,804
<i>Selected items, % of total</i>				
Real property and improvements	59.3	58.2	58.6	55.0
Livestock	3.7	3.8	3.3	1.8
Farm implements and machinery	0.8	0.8	0.7	0.8
Mfg machinery, tools, implements	2.9	3.1	3.3	4.9
Rys and their equipment	10.2	10.5	8.7	6.2
Street rys, shipping, waterworks, etc	3.9	4.5	5.5	4.8
Agricultural products	1.6	1.8	2.8	1.7
Manufactured products	6.9	6.9	7.9	8.9
Mining products	0.4	0.4	0.4	0.2
Clothing, furniture, etc	7.8	7.7	6.8	12.4

SOURCE U S Bureau of the Census, *Estimated National Wealth*, 1924, pp 18-19.

TABLE No. 2
ESTIMATED NATIONAL AND PER CAPITA INCOME OF
VARIOUS COUNTRIES, 1914

<i>Country</i>	<i>Estimates based upon the work of</i>	<i>Approximate accuracy grade*</i>	<i>National income, millions of dollars</i>	<i>Per capita income, dollars</i>
United States	National Bureau of Economic Research	I	33,500	335
United Kingdom . . .	Bowley, Stamp . . .	I	10,950	243
Germany	Helfferich	I	10,460	146
France	Pupin	II	7,300	185
Italy	IV	3,890	112
Austria-Hungary	IV	5,350	102
Spain	Barthe	IV	1,120	54
Australia	Official, Knibbs . . .	I	1,260	263
Canada	Giffen	IV	1,460	195
Japan	Stamp	III	1,580	29

* Grade I Estimate is not likely to be inaccurate to a greater extent than 10%

Grade II Estimate is not likely to be inaccurate to a greater extent than 20%

Grade III Estimate is not likely to be inaccurate to a greater extent than 30%

Grade IV Estimate is not likely to be inaccurate to a greater extent than 40%

SOURCE *Report of Joint Commission of Agricultural Inquiry*, 67th Congress, 1st Session, H R Rep No 408, Part I, p 50, adapted from summary by Sir Josiah Stamp, *Journal of the Royal Statistical Society*, July 1919

TABLE No. 3

ESTIMATES OF
U. S. NATIONAL INCOME IN MONEY OF VARIABLE
AND CONSTANT PURCHASING POWER, 1910-1918

In billions of dollars

<i>Basis of Estimate</i>	1910	1916 ,	1917	1918
At prices each year				
Est by sources, prod	31 8	45 8	53 8	60 9
Est by incs recd	31 1	45 5	53 9	61 7
Most probable	31 4	45 6	53 8	61 3
At prices of 1913				
Est by sources of prod	32 5	41 6	41 8	39 4
Est by incs recd	31 8	40 1	39 6	38 4
Most probable	32 2	40 4	40 7	38 9

Adapted from *Report of Joint Commission of Agricultural Inquiry*, Part I, p 49, quoting estimates by National Bureau of Economic Research

TABLE No 4

ESTIMATES OF THE U S NATIONAL INCOME PER-CAPITA

In dollars

<i>Year</i>	<i>Per Capita Income At prices each year</i>	<i>Per Capita Income At prices of 1913.</i>
1909	319	331
1910	340	349
1911	333	338
1912	346	348
1913	355	355
1914	335	333
1915	360	351
1916	448	397
1917	522	395
1918	588	373
1919	(630)	(358)

Adapted from *Report of Joint Commission of Agricultural Inquiry*, Part I, p 50

TABLE No 5

SOURCES OF U S NATIONAL INCOME
Percentages Contributed by the Various Industries

<i>Industry</i>	1909	1914	1918
Agriculture	16 29	17 80	21 01
Mineral production	3 14	3 06	3 33
Mfrg., incl. hand trades	30 32	27 27	31 47
Transportation	9 60	9 34	8 67
Banking	1 51	1 52	1 27
Government	5 00	5 72	8 87
Unclassified industries and miscellaneous income	34 14	35 29	25 38
All industries	100 00	100 00	100 00

SOURCE: National Bureau of Economic Research, *Income in the United State.*, 1921, p. 23

THE INDUSTRIAL STRUCTURE

The central indication of the type of national economy and of trends in its evolution is, of course, to be found in its industrial structure itself, and this may be viewed in the light of the previously indicated categories of industries, based both upon the relative position of the geographic and economic factors in production, as mentioned, and upon the physical characteristics of the industries themselves

PRIMARY vs. SECONDARY PRODUCTION

Thus, industries, as previously partly indicated, may be broadly classified as follows: (I) Material industries, (A) primary; (1) agriculture, (2) extraction (mining, lumbering, etc.); (B) secondary; (1) conversion (e.g. refining); (2) fabrication (complex manufactures); (II) Tertiary, or service industries¹⁶. The type of material industries is

¹⁶ Secondary production has sometimes been classified as (1) primitive (e.g. making of Persian rugs), (2) simple (e.g. canning and refining), (3) complex (e.g. steel and textile products).

of significance at this point. The predominance of primary, with some secondary conversion production in countries of frontier national economy, and the relatively larger importance of complex manufacturing in countries of industrialized national economy are characteristic phenomena, and a review of the changing proportions of types of industry in the United States is a further index to its trend, slow but sure, toward industrialization in this narrower sense.

EXTENSIVE vs INTENSIVE PRODUCTION

As also seen in the preceding chapter, another classification is the comparative one of extensive and intensive industries, which is little more than an expression of the relative importance of land on the one hand, and labor, capital, and enterprise on the other hand; that is, intensiveness is a concentration with respect to area. Accordingly, manufacturing is per se intensive and agriculture extensive, although certain branches of the agricultural industry are comparatively intensive. Increasing intensiveness, then, becomes a further index to industrialization, but while this is more or less obvious with respect to manufacturing, the importance of the contrasts in agriculture is not always recognized. The relative intensiveness of agriculture in the leading industrialized countries and the tendency in that direction in American agriculture are illustrated in different ways. For example there is the contrast between the intensive sugar beet culture of Germany and the extensive sugar cane industry of Cuba, or the wide divergence of beef-cattle raising in Argentina and dairying in countries of western Europe.¹⁷ Indeed, one of the most interesting of the many evidences

¹⁷ NOTE Although Denmark is not industrialized, its development of dairying as a leading national industry represents a highly intensive development not unlike that of manufacturing countries.

of the trend in the United States has been, not simply the growth of manufactures, but the intensification of agriculture, and this is directly reflected in the export trade. The trend was particularly noticeable in the case of wheat and meat before the World War, with a relative decline in these types of extensive production and a consequent trend toward decline in exportation. The war produced an abnormal European deficit of these commodities and resulted in a temporarily sharp stimulation of American production, but the post-war changes in world trade tended to bring an adjustment in American agriculture which was in line with the permanent trend, and in some cases violently so. Perhaps the most significant international contrast, however, may be made in terms of yield per acre of staple crops which are grown under these various conditions. It is true that many factors other than intensiveness or extensiveness, such as relative fertility and efficiency and use of scientific methods, affect crop yield but primarily yield differences are due to the basic characteristics here mentioned. Wheat furnishes a case in point. Generally considered a product of extensive agriculture, it may nevertheless vary greatly in the intensiveness or extensiveness of its production. As grown in industrialized countries which produce it in important quantities but which because of their high population-agriculture ratio must also import it heavily, it is frequently on a high national-average yield per acre basis, and the reverse is true of frontier countries which are wheat exporters. Thus, the average wheat yield in bushels per acre in 1909-13 was 32.6 in Germany and 31.2 in England and Wales, as against 11.9 in Australia and 9.2 in Argentina. A superficial glance at these figures without consideration of national economic structure and of actual world trade would lead to the assumption that Germany was several times as efficient as

Argentina as a wheat¹ producer and that according to the rule of territorial division of labor Germany should produce wheat for export and Argentina should not. Yet despite a certain degree of difference in efficiency, the principal reason for the disparity lies in the industrialized condition of Germany and the consequent necessity of intensiveness, that is, of use of relatively larger proportions of labor and capital, especially labor, in what agriculture she does maintain, and on the other hand in the fact that in Argentina the relative abundance of land makes it cheaper to utilize larger proportions of that factor in the production of a given quantity of the commodity. This is especially true since the wheat market is a world market, with largely free play of price competition among the various countries. Applying this index to the United States, this country had an average 1909-13 wheat yield per acre of 14.7 bushels (16.1 bushels in 1924),¹⁸ again indicating a position somewhat midway between the true industrialized countries and the true frontier countries. Further, while the reflection of industrialization in the characteristics of agriculture is less direct than in those of manufacturing, there are numerous indications of that trend, as for example in the relative decline of the meat-cattle industry and the relative increase in dairying. Agriculture, like other industries, thus tends to have both changed proportions and changed characteristics in the evolving type of national economy. However, the inherent intensiveness of manufacture is the most obvious characteristic.

ONE-PRODUCT SYSTEMS VS DIVERSIFICATION

A further point of contrast in the industrial structures of various regions and countries, with special implications in

¹⁸ *Vide* Table No. 6

their external trade, is that between one-product systems of production and diversified systems. This contrast is most noticeable in comparing manufacture and agriculture, since a region of well-developed manufactures is usually one of diversified products, manufacturing inherently tending toward variety of output, while agriculture in general tends in the other direction. But certain branches of agriculture are much more diversified than others. The one-crop system, which is usually also a cash-crop system with a peculiar dependence upon external markets, is well illustrated in the cases of Brazilian coffee and Cuban sugar, in these cases an entire national economy largely revolves

TABLE No. 6

WHEAT YIELDS PER ACRE

National Averages in Bushels for Selected Countries

<i>Countries</i>	<i>1909-13 average</i>	<i>1924</i>
Germany	32.6	25.7
United Kingdom (England and Wales)	31.2	33.2
United States	14.7	16.1
Argentina	9.2	10.7 ¹⁹
Australia	11.9	

SOURCE U. S. Department of Agriculture, *Agriculture Yearbook*, 1924, 1925, pp. 566-567

about one industry and one commodity which occupies a predominant place in national production as well as national export. A similar situation frequently exists in a given section of a country. When industrialization sets in it tends not only toward variety of manufactures but also toward diversification of agriculture. In the case of the United States the increasing multiplicity of manufactured products

¹⁹ 1924-25

is obvious, but the relative decline in the importance of the production of certain agricultural staples which have been one-crop products within certain sections is also noticeable. The much advocated diversification of the cotton belt and latterly, of the wheat belt, has not occurred to any marked degree, but there can be no doubt that these staples tend to occupy a less predominant place in the agricultural system, and that that system tends to produce a more varied list of products

Industrialization can never bring a complete diversification of production, for geographic reasons if for no other, indeed, that such completeness is impossible under any circumstance is illustrated in the very case of the United States, which, though endowed with an unequalled variety and abundance of natural resources, is nevertheless strategically dependent upon its import trade for certain products, as upon its export trade for disposal of surplus of certain others. Further, industrialization in certain respects increases such dependence, as illustrated in the case of rubber, wool, jute, tin and other raw materials which must be purchased for manufacture. Nevertheless, industrialization apparently makes for a much larger degree of diversification of production, in manufacture and within the limits of climate and resources in agriculture as well, and this increasing diversification is evident in the development of the United States. This matter is not exactly the same as that of a "well-rounded national economy." Thus industrialization, through its tendency toward diversification of both manufactures and agricultural products, to some degree aids in such "rounding-out," but if carried far in some respects it tends to decrease total self-sufficiency. For dependence upon imported manufactures is substituted dependence upon imported raw materials, particularly when industrialization

has tended not only toward exhaustion of mineral and timber resources but also toward a marked subordination of agriculture; the raw material dependence is of a sharper type than the former. This is well illustrated in the case of the United Kingdom and other industrialized countries. Consequently such countries usually formulate policies designed to overcome the resulting disadvantage, by preserving domestic agriculture as fully as possible (reported to be a major post-war economic policy in Germany) or by such national expansion programs as that of building up a colonial empire which will partly insure a varied supply of foodstuffs and raw materials and markets for manufactured products. In this respect the United States under the growing pressure of industrialization has developed increasingly an official export promotion campaign, mainly for manufactured products, and has protested against "foreign restrictions" upon trade in industrial raw materials.

SERVICES vs GOODS

Under industrialized conditions not only does manufacture tend to predominate over the primary types of production, but other non-primary-production types of business, the tertiary industries, assume a larger importance. That is, with an economic structure of increased complexity the businesses which produce services such as time and place and hypothecation utilities rather than form utility become relatively more important. The growth of businesses producing services rather than goods—that is, of merchandising, transportation and finance, in the United States is difficult to measure in an exact ratio to that of other activities, although the absolute growth of such processes is well known. One comparative view of their development, however, is found in the proportion of the gainfully occupied population

employed therein, and the increase of this proportion will be noted below in the analysis of population

PREDOMINANCE OF MANUFACTURES

On the basis of the factors just outlined the actual position of American industries may be examined to discover the relative position of the various material industries in the total production system. In certain respects the period since 1910 is not the most satisfactory one in which to make such an analysis, since the World War and its after-effects necessarily disturbed the structure, and since statistics of output measured in value involve a danger of distortion due to violent fluctuations in general price levels as well as in the ratios between the price lines for the products of the various groups. On the other hand, while the effects of the war upon American industry were varied, it is probably true that with the exception of certain strictly "war industries" these effects were largely in the direction of delaying the normal trend toward industrialization due to the disproportionate special demands of Europe for larger supplies of foods and raw materials; this is illustrated in the case cited above, of the abnormal stimulation of the production of grains and meats. Consequently, if industrialization appears in this period it is not unreasonable to suppose that the process might have been even more pronounced had the war not occurred. As for the technical difficulty of measuring production in terms of value, there are technical means of offsetting this, and after all, value is the natural common denominator. Altogether, the process of industrialization, judged by various indices, appears to have approached or passed the half-way mark in just this period; in short, if any date might be set it might be said that it was in about 1909-1919 that the predominance of manufacturing indus-

tries tipped the scales of American national economy — although this of course is necessarily a generalization. In some respects the half-way mark was reached before 1909, and in other ways it has not yet been reached, but roughly the point of fifty per cent industrialization of the United States was attained, even in spite of the partly contrary effects of the war, in this second decade of the 20th Century — a process which, needless to say, will never be one hundred per cent completed.

There are, of course, many possible methods of measuring the groups of industries in their relation to each other and to the total industrial structure, including that of estimating the amount of capital invested and the number of persons employed, but the latter indices obviously involve certain possibilities of misleading comparison, and the most accurate and most direct measurement is that of output of the various groups in proportion to total output and to population. By making certain computations from census data on production it would appear that in 1909 farm products constituted slightly more than 41% of the total national production of the material industries in the United States, measured in terms of value.²⁰ When to this are added the output of mines and quarries, lumber, and fisheries products, the primary material industries of the country may be estimated to have contributed approximately 58½% of the total material production, whereas the secondary or manufacturing industries contributed only 41½%. Comparing 1909 with 1919 on the same basis the agricultural production would appear to have had approximately the same share in material production in the latter year as in the former, while, due to the decline in other primary industries, the primary total in 1919 was only slightly more than 50% (51.8), show-

²⁰ *Vide* Table No. 7

TABLE No 7

PRODUCTION OF THE PRINCIPAL MATERIAL INDUSTRIES
IN THE UNITED STATES*Values in dollars (000,000 omitted)*

	1909		1919	
	Value	Per cent of total products	Value	Per cent of total products
Farm Products ¹	8 494 ²	41 3	21 426 ²	41 3
Products of Mines and Quarries	1,238		3,158	
Lumber ³	2 232 ³		2 232 ³	
Fisheries Prod- ucts ⁷	54 ⁵		76 ⁹	
Total Other than Mfrs	12,018	58 5	26 892	51 8
Manufactures ¹⁰	8,529 ¹¹	41 5	25 042 ¹¹	48 2
Total	20,547		51,934	

SOURCES Compiled from *Abstract of the Fourteenth Census*, the *Statistical Abstract of the U S*, and the *Report of the Joint Commission of Agricultural Inquiry*, as indicated in footnotes Notes on Table No 7

¹ SOURCE *Abstract of the 14th Census of the U S*, 1920, U S Bureau of the Census 1923, p 886

² Gross value, involves duplications, e g crops fed to livestock

³ SOURCE *Abstract of 14th Census*, p 1268

⁴ SOURCE *Statistical Abstract of the U S*, 1923, U S Bureau of Foreign and Domestic Commerce, 1924, p 232

⁵ Assumed for purposes of comparison The physical volume of production of lumber (as well as of many wood products such as lath and shingles) actually declined from 1909 to 1919, while their prices tended to increase more materially than those of many other commodity groups In any event, this figure is an estimated average for 1912-21, so that the total value of products in 1909 was probably at least this large

⁶ Estimated amount of timber removed annually from forests of U S, based mainly upon average of production in the period 1912-21, value based on prices prevailing in 1919

⁷ SOURCE *Statistical Abstract*, 1923, pp 237 et seq

⁸ Figure for 1908, representing total of figures for the various sections, not including Alaska

⁹ Figure for 1919, representing a total of \$87,026,030, (of various sections for nearest years available) minus 10,700,000 for Alaska

¹⁰ SOURCE *Abstract of the 14th Census*, p 916

¹¹ Value added by mfr, i e, value of products less cost of materials.

ing a gain for manufacturing to 48 2% or very nearly one-half of the total material production

This computation indeed, involves certain necessarily more or less rough assumptions and estimates. Moreover, it raises the question of the influence of relative price changes upon such value proportions. However, an examination of price movements during the period tends to

TABLE No 8
INDEX NUMBERS OF WHOLESALE PRICES IN THE
UNITED STATES

1913=100				
<i>Groups of Commodities</i>	1899	1909	1919	1923
Farm Products	64	97	231	141
Foods	74	97	207	144
Cloths and Clothing	80	98	253	200
Fuel and Lighting	67	84	181	185
Metals and Metal Products	110	93	162	144
Building Materials	77	95	201	189
Chemicals and Drugs	101	100	169	131
House-furnishing Goods	80	92	184	183
Miscellaneous	100	130	175	123
All Commodities	75	97	206	154

SOURCE: *Wholesale Prices 1890 to 1923, Bulletin of the U S Bureau of Labor Statistics*, No. 367, U S Department of Labor, 1925, pp. 8-9

the conclusion that the trend found in the above figures was not offset by the disproportionate fluctuations in prices of different commodity groups. This may be judged from certain data on wholesale price movements from 1909 to 1919.²¹ These statistics are the figures of the Bureau of Labor Statistics, and while numerous other indices have been

²¹ *Vide* Table No. 8

formulated, including the weighted average ones of the Federal Reserve Board, they are probably as satisfactory as any for present purposes. Certain other limitations in these figures as applied to the present computation must be recognized.²² Yet the indices are apparently sufficient to show that if agricultural production (much the largest item in total primary production) did not decline in proportion of total value from 1909 to 1919, it did not tremendously increase in physical volume in that period. For, while the depression of wholesale prices of farm products below the all-commodity price level in very recent years has been a much-advertised fact, it is equally true that in 1919 such prices were substantially above the general level. On a 1913 base, the farm products index number in 1919 was 231 as against an all-commodity number of only 206. These price data, due to their classification, offer no further contrast of primary products and secondary products, but the case of agriculture is significant. In short, though agriculture when measured in terms of value of products 'held its own' in its proportionate position in the total material industry structure of the United States in 1919 as compared

²² (a) Their classification is not the same as the above classification of production

(b) Their base is 1913 rather than 1909

(c) Wholesale price indices of course do not give exact indication of monetary returns received by original producers, nor of their relative prosperity, i.e., they necessarily leave out of account the spread between wholesale prices and original-producer prices and it would be only by computation on the latter basis that an exact estimate could be made of the true returns to original material production industries, as well, incidentally (though the question is not a directly related one here) of the purchasing power of the original-producer dollar

Moreover, it may be remarked that any figures based on prices obviously represent simply *relative* values placed upon different goods (and services) by economic society, but, for this very reason, and because they are automatic, they are significant as measures of relative economic importance.

with 1909, it is clear enough that this appearance of sustained relative position was partly a result of higher prices for farm products. Even in the world-war period, then, when American agriculture in many important branches was distinctly and disproportionately stimulated by increased European demand, it probably declined in its ratio to American manufacturing.

But further and more direct substantiation of this conclusion may be found in estimates of the Joint Commission of Agricultural Inquiry. According to these, if 1911-13 be taken as a base, the index numbers of relative production in 1919 were as follows: all commodities 120, manufactures 126, materials 110, including products of mines 112, and products of farms 112.²³ Even more striking than these are the estimates made by the same body, of index numbers of growth of population and physical volume of production on an 1899 base.²⁴ Such numbers for 1919 are, in part: population 139.7, manufactured products 195.3 (including lumber products 85.5), agriculture 137.6. Commenting on these data the Commission said:²⁵ "The significant deduction to be drawn is that in the decade 1899 to 1909 the quantity of agriculture increased 10% while in the following decade, 1909 to 1919, the quantity of agriculture increased [only] 10.5%, and that the large increase in total value of the crops compared was not a true measure of the progress of agriculture as an industry. From 1899 to 1909 the quantity output of farms increased 10% while the population 1900 to 1910 increased 21.5%. From 1909 to 1919 the quantity output of farms increased 10.5%, while the population increased 1910 to 1920, 14.5%."

²³ *Vide* Table No. 9.

²⁴ *Vide* Table No. 10.

²⁵ *Report of the Joint Commission of Agriculture Inquiry*, 67th Congress 1st session, H. R. Report No. 408, printed 1921, Part I, p. 42.

TABLE No 9

INDEX NUMBERS OF RELATIVE PRODUCTION OF FARM
PRODUCTS, MINERAL PRODUCTS, MANUFACTURED,
PRODUCTS, ALL COMMODITIES, AND
TRANSPORTATION

1911-13 average=100 ²⁶

<i>Industries</i>	1899	1909	1919
Materials (total)	77	95	110
Products of Farms	82	95	112
Products of Mines	48	87	112
Manufactures (total)	57	96	126
Manufactured from Farm Products ²⁶	70	102	120
Manufactured from Mineral Products	38	88	118
All Commodities	65	94	120
Transportation (freight ton miles and passenger miles)	44	86	138

SOURCE Adapted from *Report of Joint Commission of Agricultural Inquiry*, Part I, p 47

Thus taking all estimates into account, it seems clear (a) that agriculture is not keeping pace with either manufacture or population, (b) that, despite notable increases in output of certain minerals, the same is true with respect to primary material production in general, (c) that, on the other hand, manufacture is increasing more rapidly than agriculture, as well as population, and is coming to predominate in the industrial structure, (d) that this predominance, though it may be judged by varying indices, became an actuality in about the period 1910-1920; and (e) that, while the half-way mark of industrialization ²⁷ was reached

²⁶ It should be noted that this includes certain imported raw materials, such as coffee, sisal, wood (partly imported), and jute

²⁷ It scarcely need be pointed out that industrialization never becomes 100% completed, unless perhaps in some "city state"

TABLE No. 10
 INDEX NUMBERS OF THE GROWTH OF POPULATION AND
 THE PHYSICAL VOLUME OF PRODUCTION OF
 SELECTED MANUFACTURED PRODUCTS
 AND OF MINING AND AGRICULTURE

1899=100

	1899	1909	1919
Growth of Population	100	121 0	139 7
Manufactured Products	100	163 4	195 3
Lumber Products	100	126 2	85 5
Food Products	100	144 3	191 1
Textiles	100	149 2	190 7
Iron Products	100	171 8	212 7
Chemicals and allied Products	100	199 2	282 2
Metal Products exc Iron	100	192 6	296 1
Vehicles	100	354 5	1373 8
Mining	100	189 4	228 4
Agriculture	100	118 1	137 6

SOURCE Adapted from *Report of the Joint Commission of Agricultural Inquiry*, Part I, p. 46

during a period of war-time economic disturbance, it cannot be regarded as extraordinary since these disturbances in many instances retarded rather than accelerated the movement and further industrialization is the outstanding indication for the future in the national economy ²⁸

²⁸ NOTE Many further results of the process analyzed above could be enumerated by way of illustration, especially if phenomena of internal rather than primarily external importance were included. To mention but one of these, there is the largely attendant tendency toward integration among the units or enterprises within the manufacturing group, and, to some extent among the tertiary group, as in transportation. This entire process of business combination, of formation of "trusts" or other types

POPULATION

Industrialization is chiefly indicated in the relative position of the primary and the secondary material industries, but it is expressed in numerous other ways. Many population phenomena are alike its causes and its effects, most of all, perhaps, its causes.

SIZE AND DENSITY

The total number of persons in the United States, increasing in every decade, grew from an estimated 3,929,214 in 1790 to 105,710,620 in 1920²⁹. Despite substantial additions to the territorial content of the nation proper, this growth was sufficiently rapid to cause an increase in population density in all decades except those of 1800-1810 and 1840-1850; the number of persons per square mile was 4.5 in 1790, and from 1850 to 1920 it advanced from 7.9 to 35.5, this advance having continued also since 1920. Such density is, of course, much less than that of industrialized countries such as the United Kingdom (389.19 persons per square mile), France (184.31), Germany (328.40), and Belgium (635.24), and, incidentally, less than that of certain other countries which may not be said to be industrialized but which have large populations in proportion to area and yet have not greatly developed manufacturing due to at least temporary economic

of affiliation and concentration of ownership, management, and operation, with the accompanying advantages in standardization and large-scale production and possible disadvantages in the way of restraint of competition, together with the national policies evolved for the regulation of the movement, is too familiar and largely too domestic a question to need amplification here. It may be mentioned, however, simply as a further indication of how many of the major national economic and politico-economic phenomena and problems and policies, both internal and foreign, are basically accounted for in the fundamental industrial structure and structural trend which is the subject of the present analysis.

²⁹ *Vide* Table No. 11.

"backwardness," such as China (100 85), or due to an extraordinary development of a type of agriculture almost equal to manufacture in intensiveness, such as Denmark (191 85).³⁰ On the other hand, it is of no little significance that the density of population in the United States is much greater than that of countries of true economic frontier type, such as Brazil (9 74) and Argentina (7 66), and that it is increasing steadily.³¹ A congested population not only facilitates the development of manufacture, with its need of a large labor supply, but if the country is economically progressive and has not evolved some very special type of agricultural development like that of Denmark's dairying, such a congestion may even be looked upon as more or less compelling as a force for industrialization. In this sense, with an expanding even though not yet congested population, and with a coincidence of progressiveness and an abundance of resources, the industrialization of the United States has been and is almost inevitable.

URBAN PROPORTION

The trend is further discovered in the facts of location of population and of occupation.³² In the 19th Century the population of the United States had always been predominantly rural, but here again the half-way mark was passed in the decade from 1910 to 1920, for the percentage of the

³⁰ A recent article in the *London Economist*, citing statistics of population density in number of inhabitants per square kilometer, emphasized the fact that if England and Wales alone are taken as a unit the density there is the highest in the world, exceeding that of the Netherlands, Japan, Germany, and even Belgium; the density, of course, is less in the United Kingdom as a whole, and much less in Scotland, than in England and Wales.

Concerning China, it should be noted that the density for the country as a whole is less than that of a number of other countries, but it is particularly high in some sections, as in certain littoral and river valley strips.

³¹ *Vide* Table No. 12

³² *Vide* Table No. 13

population which was urban was 40.0 in 1900, 45.8 in 1910, and 51.4 in 1920. The sociological implications of this change are not of any particular interest here; but it may be remarked that the distress of those interested in social conditions when this figure was first announced, and their explanation that the change was due to the unattractiveness of farm life, as well as their proposals for making such life more attractive, represented a somewhat superficial view. There was undoubtedly truth in such statements, but it was not generally recognized that the very expansion of the population and the increasing industrialization partly resulting therefrom, were inexorable causes of at least a considerable flow of population toward urban communities.

OCCUPATIONS

Still further evidence of the trend is found in occupational statistics³³. Of the persons of both sexes of 10 years of age or over engaged in gainful occupations, the following changes in proportion took place from 1910 to 1920: persons engaged in agriculture, animal husbandry, and forestry 33.2% to 26.3%, extraction of minerals 2.5% to 2.6%, combining these two groups, total primary material industries 35.7% to 28.9%, manufacturing and mechanical industries 27.8% to 30.8%, other groups such as transportation, trade, clerical, and professional, which together might be mainly clas-

³³ *Vide* Table No. 14. NOTE: It should be observed that the employment of a larger proportion of the population in a given branch of industry is not an absolutely complete index to the relative national importance of that branch, since it may represent simply a larger percentage of the labor factor than of, say, capital, in the branch, as remarked above, manufacturing as a whole tends obviously to require more of both capital and labor and less of land when compared with agriculture. Nevertheless, proportion of the national population employed in the various groups of industry is significant among the indices and causes of the make-up of the existing structure, and changes in such proportions are among the more important clues to the trend in that structure.

sified under the term "service producing industries," 36.5% to 48.3%. Thus in 1910 more than a third of the working population of the country were engaged in agriculture and other primary material industries, and not greatly more than a fourth were busied with manufacturing, while in 1920 the proportions were not far from reversed. It is also significant that the proportion of those outside the material producing industries, that is, of those engaged in producing services rather than goods, increased noticeably, while the percentage of producers of form utility, that is, of persons engaged in all the material producing industries including agriculture extraction and manufacturing, decreased. In a word the industrialization of the United States is reflected in the rise both of manufacture and of the service industries, the complexities of such industrialized life necessitating (or resulting from—according to viewpoint) the concentration of the energies of a larger portion of the population upon finance and transportation and other auxiliary processes which facilitate exchange and especially conduce to development of secondary production.

RATE OF EXPANSION

A further population phenomenon merits attention, namely the rate of increase. It is of considerable significance that in each decade from 1790 to 1860 the population of the United States increased by more than 30% and usually by 33 to 36%, and that since 1860 the rate of expansion has declined noticeably.³⁴ Thus in 1860 the percentage of increase registered over the previous census (of 1850) was 35.6, but it fell to 22.6 in 1870. While it rose to 30.1 in 1880 it declined again to 25.5 in 1890, 20.7 in 1900 (21.0 in 1910), and to 14.9% in 1920. It must, of course, be

³⁴ *Vide* Table No. 11

recognized that many factors, including general social as well as economic ones, probably influence the rate of population increase. But there is considerable evidence that industrialization tends to retard the rate, in that it represents an approach toward economic saturation. This is illustrated in the decade 1860-1870, the Civil War made for economic disturbance and doubtless also had a direct retarding effect upon the birth-rate, but in spite of this, that decade is recognized as one of a very remarkable industrial development. Again the descending rate of increase from 1910 to 1920 was undoubtedly caused in part directly by the World War, yet the almost constant decline in the rate for the entire 40 years from 1880 to 1920 probably can be explained only by taking into account the economic factor, and there is some logic in assuming that the future rate of increase, while it may recover from the low point registered in 1920, will tend to be lower than that of the first century of the nation's existence, partly due to the "saturating" effects of industrialization.

IMMIGRATION

This assumption is further supported by developments in the American immigration situation. The various ramifications of the immigration problem have been discussed in a previous chapter and need not be reexamined here. But it is highly significant that after more than a century of practically unlimited influx of population from abroad, the United States adopted a restrictive policy in 1921, with the passage of the so-called "Three Per Cent Law," and that such restriction, for basic economic rather than for general sociological reasons, is likely to become more severe instead of less so. Indeed, without any legislation whatever the time might have been anticipated when, at some distant date, the tide of immigration would have turned, due to the accomplish-

ment of the natural process of a levelling of conditions of economic opportunity and of standard of living. This does not imply that legislative restriction was not necessary in an attempt to preserve the high standard of living of the country — rather the contrary, for except as offset by other developments the flow of population would tend to continue until the levelling process had been approximately completed. True, there may have been no direct reflection of such a levelling, due to the continued increase in exploitation of natural resources and in capital as represented in labor saving devices, but the limits of such offsetting processes, of such means of maintaining or increasing the standard of living, could not be predicted, and it is somewhat logical to suppose that limits would ultimately appear. In any event, immigration, though it probably would have been checked ultimately by the equalizing process, has been checked by political fiat, and this not only indicates a lower future rate of expansion of population from without as well as from within but may be considered broadly a further indirect aspect of industrialization. Of this it is an effect rather than a cause. The intensive industries such as manufacturing require a concentrated labor supply, and this is a natural reason why certain industrialist-employer groups have opposed immigration restriction. But once the concentration begins to occur there arise both economic and political forces to prevent influx from without. There is no flow of population from frontier countries to the industrialized areas of north-western Europe. Restriction of immigration into the United States may partly impede industrialization, but with the increasing population within it will scarcely prevent it, and the two phenomena are products in part of the same process.

TABLE No 11
TOTAL POPULATION AND POPULATION INCREASE
AND DENSITY IN THE UNITED STATES

Date	No of persons	Percent increase over previous census	Density (No of persons per sq mi)
1790	3,929,214	—	4.5
1800	5,308,483	35.1	6.1
1810	7,239,881	36.4	4.3
1820	9,638,453	33.1	5.5
1830	12,866,020	33.5	7.3
1840	17,069,453	32.7	9.7
1850	23,191,876	35.9	7.9
1860	31,443,321	35.6	10.6
1870	38,558,371	22.6	13.0
1880	50,155,783	30.1	16.9
1890	62,947,714	25.5	21.2
1900	75,994,575	20.7	25.6
1910	91,972,266	21.0	30.9
1920	105,710,620	14.9	35.5

SOURCE U S Department of Commerce, *Statistical Abstract of U S*
1923, 1924, p. 2

TABLE No 12
POPULATION DENSITY IN VARIOUS COUNTRIES
*No of persons per square mile of area in 1922 or latest
available date*

Country or Region	Density
World	37.32
Belgium	635.24
Japan	390.36
United Kingdom	389.19
Germany	328.40
Denmark	191.85
France	184.31
China	100.85
U S (1920)	35.50
Brazil	9.74
Argentina	7.66
Canada	2.40

SOURCE *Statistical Abstract of the U S*, 1923, pp. 850 et seq

TABLE No. 13

URBAN PERCENTAGE OF U S POPULATION

<i>Year</i>	<i>% Urban</i>
1900	40.0
1910	45.8
1920	51.4

SOURCE *Statistical Abstract of the U S*, 1923, p. 39

TABLE No. 14

OCCUPATIONS OF U S POPULATION

*Percentages of persons, of both sexes,
10 years of age or over, engaged in gainful occupations*

<i>Occupation</i>	1910	1920
1 Agriculture, forestry and animal husbandry	33.2	26.3
2 Extraction of minerals	2.5	2.6
3 Mfg. and mechanical industries	27.8	30.8
4 Transportation	6.9	7.4
5 Trade	9.5	10.2
6 Public service (not elsewhere classified)	1.2	1.9
7 Professional service	4.4	5.2
8 Domestic and personal service	9.9	8.2
9 Clerical occupations	4.6	7.5
Total Primary Production (Items 1 and 2)	35.7	28.9
Total Material Industries (Items 1, 2, 3)	63.5	59.7
Total Service Industries (Items 4 to 9 incl.)	36.5	40.3

SOURCE *Statistical Abstract of the U S*, 1923, p. 27

OTHER ASPECTS OF INDUSTRIALIZATION

The further, indirect effects and reflections of industrialization, both internal and external, are numerous. Many national economic problems are created by it. For example, as industrialization advances and leads to greater functional division of labor and to a concentration of laboring classes in industrial centers, the resulting separation of interests

tends to cause conflict between capital and labor, and, as has been frequently pointed out, there arises the entire economic, political, and social problem of industrial democracy. Again, certain problems which have been receiving very recent attention in the United States and which have to do with the relations of the different business groups in the total business structure, would seem to be more or less directly traceable to this fundamental change in the national economy, these include the relation of transportation and agriculture, of credit and agriculture, and of the price levels of the products of different groups (e g the "purchasing power of the farmer's dollar"), and, indeed, the whole process of physical distribution or dispersal of goods from the original producer to ultimate consumer in an efficient manner. The change in the fundamental structure emphasizes maladjustments in the parts and processes of that structure and leads to increasing demands for equity and equilibrium in the nation's business.

Perhaps the far-reaching effects of the evolution are best illustrated in its influence upon diet. The meat consumption per capita of many of the countries with a frontier economy averages much higher than that of industrialized countries. In Argentina, Australia, and New Zealand, according to available estimates, it is well over 200 pounds, as against 115 for Germany and 80 for France,³⁵ while that for the United States (1907-13) has been computed at 157 pounds, a figure approximately midway between those of the typical frontier countries and those of the characteristic industrialized nations.³⁶ Certain of the latter countries, where the demand for meat has remained fairly heavy and the foreign

³⁵ NOTE. The *per capita* consumption is small also in certain countries, such as China, where there is very little industrialization but where economic age and congestion of population have produced similar effects.

³⁶ *Vide* Table No. 15

trade position has permitted, have maintained a moderately large meat consumption, as in the cases of the United Kingdom (120) and Germany, but the comparison holds true even in such instances. Moreover, recent estimates have disclosed the natural trend in the United States, this country in the decade prior to the war was becoming a less important net exporter of beef, and while the war abnormally stimulated meat exports and consequently meat production, post-war developments have been in line with the fundamental trend, and have resulted in a particularly sharp decline in the extensive branches of the cattle industry, and, it is estimated, in a decrease in meat consumption per capita.

TABLE No 15

ESTIMATED MEAT CONSUMPTION IN VARIOUS COUNTRIES
(Pounds per capita, at recent dates for which estimates are available).

Country	Lbs per capita
Argentina	281
Australia	263
New Zealand	213
U S (1907-13)	157
Canada	137
Cuba	124
United Kingdom	120
Germany	115
France	80
Italy	47

SOURCE *Commerce Monthly*, Vol VI No 3 (July 1924)

The reasons are clear, since meat production is not only a primary industry which with industrialization tends to yield to the secondary industries in relative importance despite the increased demands of the latter industries for raw

materials and indirectly of foodstuffs, but it is also a peculiarly extensive branch of the primary industry group, its product is comparatively a luxury, and it not only yields to the predominance of the secondary industries but also to the more intensive branches of livestock production, such as dairying, and of agriculture in general. Land becomes dearer, and utilization intensifies and the extensive industry foods give way to the ones which are cheaper both because obtained more directly from the soil and because obtained more intensively, with a relatively smaller use of land and a relatively larger use of cheap labor per unit of product.

Remote, therefore, as such a phenomenon may seem from the industrial structure the effect of the latter is apparent, and probably no better example could be found of the pervasive influence of fundamental economic changes in the national life. Even characteristics of food consumption belong to the national economy, and among innumerable other expressions even diet reflects the industrial structure and its trend in the United States.

EFFECTS UPON INTERNATIONAL POSITION

In the analysis of national economies the most fundamental contrast is to be found between those of the simple or "frontier" and those of the complex or "industrialized" type. (1) Many of the most important countries in world industry and trade may be classified as belonging to one or the other of these two types, or as being in a process of change from the former to the latter. (2) Great Britain may be indicated as an example of the former type, Argentina as one of the latter, and the United States as a nation which formerly possessed a frontier economy but which is slowly undergoing an evolution in the direction of an industrialized national economy, and has apparently some-

what passed the halfway mark at the present time (3) A simple economy is chiefly characterized by a predominance of primary production, that is, of production of foodstuffs and raw materials, and a complex one by a predominance of production of manufactures, together, probably, with the types of business which produce services rather than commodities (4) These general characteristics are either based on or illustrated by such factors as. (a) certain basic geographic conditions such as area, resources, climate, and location, which account for the prevailing territorial division of labor, that is for the existing regional specialization in production and exchange, (b) the relative position of the economic "factors in production," land, labor, capital, and "enterprise", (c) certain consequent alignments in the industrial structure, such as the comparative development of either primary or secondary industries, of conversion or fabrication types of industry, and of extensive or intensive industry, (d) the prevalence of "one-product," and "cash-product" industrial types, or the existence of industrial diversification (5) Further effects and indices of industrialization are to be found, not only in the structure of material industry, but also in greater or less degree in such factors as (a) the relative position of finance, transportation, and other phases of the economic superstructure, (b) the form of the national wealth and sources of the national income, (c) the trend and employment of the population, and (d) many other economic and social phenomena and problems, including labor status, immigration, physical distribution, and even diet (6) But perhaps more distinctly clear than any other phase of a national economy is its foreign commerce, the character and direction of which serve as unusually significant indices, since such commerce is an outward expression of the economic structure and its trend, in turn, the foreign commerce of a nation, and its probable

future development, may be fully understood only in terms of such fundamental factors.

In the case of the United States, the process fundamentally accounts for such outstanding developments in its external relations as these (a) an export trade composed of a decreasing proportion of foodstuffs and raw materials and of an increasing proportion of manufactured products; (b) an import trade showing contrary changes, (c) a slowly resulting tendency for foreign trade to be carried on somewhat less with the other industrialized countries, that is. with Europe, and somewhat more with Latin America and Asia, which offer more supplies of raw materials and foodstuffs not domestically available and more potential markets for fabricated articles, (d) increases in foreign service industries—foreign shipping, foreign financing—vitaly affecting the balance of international payments, (e) a tendency toward the greater complexity and significance of foreign economic activities in general. Corresponding policies follow, including encouragement of manufacture for export, less national attention to primary production for export, governmental and other public export trade promotion campaigns tending to stress fabricated articles, attendant tariff policies, measures to insure unrestricted and uncontrolled purchase of essential foreign raw materials, and encouragement and direction of overseas shipping and foreign financing activities. Indeed, few major developments in national policy concerning foreign economic relations are not traceable in considerable measure to this change in economic structure. As will be further illustrated subsequently, the economic position among other countries, and the evolution of foreign economic policy, present and future, may be fully comprehended and explained only in the light of the composition and trend of this national economic constitution.

CHAPTER VIII

DOMESTIC ENTERPRISE AND FOREIGN ACTIVITY

STATUS AND ORGANIZATION FOR EXTERNAL OPERATIONS

WHILE an analysis of national economies and their relation to world economy gives a view of the industrial interrelations of nations which is in one sense fundamental it does not completely disclose the practical extent and detailed ramifications of these relations. Not only is it true that the business of the world overflows international boundaries in matters other than trade alone, but it is insufficient to dismiss industrial interrelations with the obvious generalization that certain industries of certain countries, or indeed all industries of all countries, are directly or indirectly dependent upon foreign sources of supply and foreign markets for their products. The industries of the world are even more directly and intimately interconnected. Consequently it becomes important, in a complete treatment of the structural basis of international economic relations, to consider the status and organization of industrial enterprise in its international aspect. This examination in turn is most logically made from the viewpoint first of domestic enterprise in its relation to foreign business and secondly with respect to foreign and international enterprise proper. Such

a distinction is logical and useful, although it is not always easy to dissociate domestic and foreign enterprise, for the reason that to a remarkable extent in modern times the large industrial organizations of one country have reached out in various ways into other countries, so that in many senses the industrial fabric is a world fabric. However, since political boundaries have the significance they do, the distinction between foreign and domestic enterprise may be followed and the latter may first be considered. Its status with respect to foreign business and its organization for the purpose are matters of considerable importance as are also the status and organization of foreign enterprise. In short the freedom with which industrial enterprise may operate from one country to another is a matter of fundamental significance.

THE STATUS OF DOMESTIC ENTERPRISE

The question of the status of enterprise suggests the matters of incorporation, combination, and taxation.

INCORPORATION

Naturally in practically all of the highly developed countries, where business is also consequently highly developed, there are elaborate systems providing for and generally facilitating the incorporation of enterprises for industrial and commercial purposes. These incorporation systems as a rule involve little if any impediment to the carrying on of foreign business by domestic concerns. However in certain instances special arrangements have been made for the purpose of facilitating such business, especially in certain regions where the incorporation systems are not so highly developed or are more or less disorganized. It is also to be observed that in at least one important country there is the

question of incorporation under laws of the central government or under the laws of local governments. That is, in the United States incorporation of industrial and other business concerns is generally a state rather than a federal matter. There are of course certain exceptions to this, for example, the federal government has set up special arrangements for national banks, and it is of course true that the national legislature has the power to create federal corporations. However such federal corporations are usually for some governmental or quasi-public purpose, as in the case of the former United States Grain Corporation and the present Emergency Fleet Corporation, and the fact is that there is no fixed or general corporation law under which a private concern may obtain a federal charter. This system has perhaps no particular disadvantages for ordinary domestic purposes, but has possible disadvantages for the purposes of foreign business, since national incorporation exists in most of the other leading countries and since such national incorporation carries with it a certain assurance of uniformity, stability, and prestige abroad. In other words, it might prove of advantage for the United States to establish a regular federal system of incorporation by which enterprises doing an interstate business or at least a foreign business might receive a federal charter and consequently obtain a certain additional prestige in other countries. This matter, however, is apparently not one of great necessity and there would appear to be some doubt as to the constitutional possibilities of federal incorporation. The matter of incorporation for foreign business becomes of larger importance in outlying parts of the world and particularly in countries where the powers possess extraterritorial rights. This is particularly illustrated in the case of foreign concerns doing business in China. In that country the corporation laws are not highly developed

and many concerns of the leading countries have been operating there under varying status. Many of them probably have needed no special legal status, particularly when they have obtained special rights, as by concessions from the central or provincial governments. Nevertheless certain powers have appreciated the usefulness of a special system of incorporation for concerns of their own nationality operating in the China field. Under the Hongkong Ordinances of 1911¹ it was possible for British and other concerns to incorporate in that British colony and to carry on business in China, this was of special significance because of the commercially strategic position of Hongkong in much of the business of South China. While the Hongkong Ordinances were those of a British colony, it is generally known that concerns of other nations including those of the United States took advantage of the system. In 1915² those ordinances were amended in order to facilitate such operations, their scope was extended so as to include two types of companies, namely, Hongkong China Companies, the operation of which would be directed and controlled from Hongkong, and China Companies which would be incorporated under the Companies Ordinance in Hongkong but the operation of which would be directed and controlled from some place within the limits of the China Companies Orders-in-Council of 1915. For these latter companies jurisdiction of the British Supreme Court for China (the highest British extraterritorial court in that country) was added to that of the Supreme Court of Hongkong and the jurisdiction of these two courts was made concurrent. A Hongkong Order-in-Council of the same year³ which doubtless underlay the

¹ Ordinances of Hongkong, 1911, No. 58, pp. 409-557

² Amendatory Ordinance, Dec. 17, 1915

³ Nov. 30, 1915

amendatory ordinance made further provisions for the operation of the China Companies, including their registration with the British Consul-General at Shanghai. This order-in-council also provided that directors of the China Company should be British subjects residing within the limits of the order. Thus in 1915 control of British-China Companies passed, in one sense, beyond the jurisdiction of the colonial government of Hongkong and became subject to imperial jurisdiction under the extraterritorial system. The British-China Companies system is an illustration of the special status which may be provided by a leading power for its enterprises wishing to carry on business beyond the territorial limits of the home country and the colonies, in outlying regions, and particularly in areas where the extraterritorial system has existed.

This British system was utilized by concerns other than British, prior to 1915 and even from 1915 to 1919, but in the latter year a further order-in-council made for the exclusion of non-British concerns.⁴ This ordinance provided that the majority of the directors of such a company and those exercising general control of its business must be British subjects and that general control must be conducted within the jurisdictional limits of the ordinance. This operated effectively to remove non-British concerns from the privileges of the system and led to agitation in the United States for a special system of American incorporation for America-China Companies. It is true that the United States Court for China in 1917 held that the United States Corporation Act for Alaska of 1903 could include American companies operating in China and that for such purposes these companies could incorporate by filing certain papers with the American Legation in China and the United States Court

⁴ Order-in-Council, Oct. 9, 1919.

for China.⁵ This make-shift was considered insufficient and the agitation on the part of American interests continued until the United States Congress finally passed the China Trade Act of 1922. The act, aside from many details not uncommon in incorporation acts, provided for federal incorporation of American concerns doing business in China, with the requirement of registering with the Secretary of Commerce of the United States and with a provision designed to secure stability and to insure that the company should carry on the business for which it was incorporated.⁶ While technically an incidental point, one of the practical purposes in obtaining special American incorporation for America-China Companies was to put these companies upon a plane of equality with their leading competitors with respect to tax burdens. The other purpose, however, included the general prestige of such American concerns and their ability to attract the participation of Chinese capital.

This matter of the special status of foreign companies of certain nations conducting business in China is one of some significance but is not to be considered typical of the leading countries. The fact remains that incorporation of domestic concerns for either domestic or foreign business is a largely standardized one throughout the principal countries and involves generally no particular restriction upon foreign business nor any particular privileges for that special purpose.

COMBINATION

One particular phase of the legal systems and politico-economic policies of the various leading governments with

⁵ United States v. Paul McRae, United States Court for China, No 586, filed Jan. 9, 1917.

⁶ United States Department of Commerce, *China Trade Act 1922, with regulations and forms*, T I B, No 74, October 30, 1922.

respect to industrial enterprise and particularly enterprises conducting a foreign business is of special significance. This is the question of the extent to which they permit combination. The actual facts of industrial organization, in their combination aspects, in the leading countries will be surveyed below, but it may be observed here that considerable differences exist with regard to the various national systems. The so-called anti-trust policy of the United States, finding its first national legislative expression in the Sherman Act of 1890 and supported by the various other national laws and administrative actions, is well known. This anti-trust policy was somewhat liberalized with respect to foreign business with the passage of the Webb Act of 1918, but apparently is still a somewhat more restrictive system than exists in the other leading countries. In Great Britain the old common law doctrine of restraint of trade is still in force, and in that and many other important countries there are laws of one sort or another concerning what are known in the United States as "unfair trade practices," but the generalization may be made that in all of the other leading countries industrial and commercial combinations may technically be effected more freely than in the United States and that this doubtless has had an important bearing on the foreign business of these countries.

TAXATION

While the question of double taxation is an important one in international business, it hinges somewhat more upon the taxation of foreign enterprise than upon the taxation of domestic enterprises doing business in foreign countries. Nevertheless it involves the latter process, and indeed to the extent that certain countries make exemptions in their tax systems for the foreign business of their domestic concerns

they tend automatically to solve that problem and to that extent to stop double taxation

Necessarily the tax systems of the different countries vary considerably. In general it may be said that many countries tax both foreign enterprises upon their business conducted within such countries and domestic enterprises upon both their domestic business and their foreign business. It is this system which tends both to hamper the international activity of business in minor ways and to lead to the problem of double taxation. However, inasmuch as results of agitation over the latter problem have been more for purposes of national business advantage, some leading governments have developed their tax laws in such a way as to mitigate the over-lapping. The matter of double taxation is primarily one which affects foreign enterprise and may be more fully considered in that connection in a subsequent chapter. It may be noted here, however, that Great Britain has for some time provided liberal exemptions for British companies upon their foreign business and that the United States has taken similar steps. Thus under the present fiscal system American concerns are exempt under certain conditions with respect to income earned abroad and corporations are granted credit for foreign taxes on revenue from subsidiary companies.⁷ Under certain provisions of the system Americans not residing in the United States for more than half a year are granted exemption in respect to income earned in a foreign country or in the possessions of the United States. On the other hand, income of a foreign individual or

⁷ U. S. Department of Commerce, *Commerce Reports*, March 15, 1926, Revenue Act of 1926 Encourages Foreign Trade (Mitchell B. Carroll, Division of Commercial Laws)

N. B. For further facts concerning the status of domestic enterprise with respect to its foreign operations, *vide* following chapter, and also Appendix.

corporation on foreign shipping business is exempted (*vide* Revenue Act of 1928, Secs 212-b and 231-b) if the foreign country reciprocates, this rather reverses the principle as regards place of exemption

In summary it is to be observed that national governments in general place no large handicaps upon domestic enterprise with respect to its foreign activity, and that there is a fairly pronounced tendency for them to adjust their laws and policies with respect to such matters as incorporation, combination, and taxation in such a way as to facilitate and in some cases especially to encourage the foreign activity of such domestic enterprise. On the other hand the status of foreign enterprise within a nation is somewhat different and in general somewhat more restricted and this question will be discussed further in subsequent paragraphs. Altogether, however, the extent to which under the existing nationalistic political systems there is freedom for international activity of enterprise is highly significant

ORGANIZATION AND FOREIGN BUSINESS

Of even greater importance in the matter of the foreign activity of the enterprise of the various nations is its organization. While the status of business concerns in the laws and public policies of the countries of their residence unquestionably conditions the foreign business which they carry on, the form of industrial organization within the various countries, even when effected originally for domestic purposes, has a large and extremely practical bearing upon international economic activities. "The relative advancement of industrial progress and the effectiveness of organization strongly influences any country's ability to extend its business activities into foreign markets in competition with

the producers located, there or with producers of other countries ”⁸

Consequently it is important in treating of international industrial activity briefly to examine the kind and extent of such organization in certain of the leading countries. It has been estimated that just prior to the World War there were at least 2,500 combinations for controlling prices or in other ways for monopolizing industry and trade in the various countries outside of the United States.⁹ While no summary estimates have been made since the war it is very likely either that there are at least that many combines now in existence or that if there are a lesser number they represent larger units for the war did not check but rather accelerated the growth of such combinations. At the outset it should be noted that the forms of industrial combination vary somewhat in the different leading countries. For example in the United States the so-called trust movement is familiar as the prevailing characteristic in this regard, and the trusts, while varying in many ways, some of them being of the so-called horizontal type and others of the perpendicular type, are essentially highly unified organizations. Again, in Great Britain industrial combination has frequently assumed the form of outright amalgamation, possibly exceeding even the trusts of the United States in unity and solidarity. On the other hand in Germany, a country rather noted for its business combination movement and for the supposedly resulting advantages in world business, the cartel form is most typical, and contrary to popular belief in many countries the cartel is a relatively loosely knit organization although in certain important instances it has been superseded by a more

⁸ U S Federal Trade Commission, *Report on Cooperation in American Export Trade*, 1916, p 77

⁹ Notz, W F, and Harvey, R S, *American Foreign Trade*, Indianapolis, 1921, pp 119 *et seq*

solid form of syndicate organization. In other countries the form has varied, but such variations may be summarized with the observation that in Canada and Australia there has been a strong tendency toward the "trust" system somewhat similar to that in the United States, that in Sweden is found a considerable degree of outright amalgamation, and that in most of the other countries in Europe, including notably France and Belgium and also Italy, Switzerland, and the Netherlands, either the cartel or the syndicate form is predominant. Finally, of course, there are still other forms and these are perhaps most interestingly illustrated in the case of Japan, where strikingly large and highly ramified combinations extending throughout the material production industries as well as banking and shipping and other economic activities have been built up on the basis of family control. These different systems may be observed somewhat more in detail.

BRITISH ORGANIZATION

In view of the fact that the American legal system in its economic and other aspects is primarily a heritage of the English it is somewhat surprising to find that in Great Britain the law places much less restraint upon industrial combinations than it does in the United States. The English common law prohibits agreements in restraint of trade and in general the policy is to encourage competition, this doctrine being the center around which has been built the American system in both the common law and statutes. However, British law does not prevent combination and "the English courts give a wide scope to freedom of control, and they have never interfered with the consolidation of competing industrial enterprises into a single company on this ground." British combinations have been effected both

through agreements and, through amalgamation, and amalgamations have been common although they apparently have not established monopolies in any large number of cases. A few of the most typical British combines may be mentioned. In the manufacture of spirits there have been three combinations for the control of the business, these organized in part by the same interests, the three combines included a union of Scotch distillers, English distillers, and Irish distillers and blenders of Irish whiskey. A highly ramified combine for the manufacture and sale of soap has been built up around one company (Lever Bros., Ltd.). This group has extended its activities beyond British confines through some 60 odd associated companies. Factories for the manufacture of soap and glycerine have been established in France, Belgium, Holland, Switzerland, the United States, Japan, Australia, New Zealand, Canada, and South Africa. The control has also extended to raw materials, including oil mills in Africa, Australia, and Japan, coconut plantations in the South Seas, and African concessions and conventions with the Belgian government for the cultivation and collection of palm fruit and oil extraction in the Belgian Congo. This organization is not an amalgamation but rather a development of a parent concern with many subsidiaries, and while it has not established a world monopoly it is clearly an international combination. Another large British combine is that which has grown up in the salt industry, including at times a Salt Association for the regulation of tonnage and prices.

There are many cases of production combines, but combines for export or for production and export are also important. Even some of the large concerns for export trade alone have assumed significant proportions, as illustrated in the case of Jardine, Matheson & Company, an organization for China and other Asiatic trade with many affiliations

with banking and shipping and production enterprises (including textile mills) in the Far East. In other cases producers themselves have formed combines for export purposes, as in the case of J. & P. Coats, Ltd., the Cotton Exporters Association, the Cambrian Coal Combine, and the Electrical Allied Manufacturers Association. In still other cases there have been combinations of producers of non-competing but complementary products for export purposes. Finally there are organizations such as the British Association of Industries, and indeed the gradation between amalgamations of industrial producers on the one hand and the merely general associations of producers and exporters on the other hand is so fine that it is impossible to say just where combination leaves off and mere association begins. Other instances of British industrial combination of a distinctly international type will be noted below.

GERMAN ORGANIZATION

German industry has long been noted for its high degree of organization.¹¹ Producers are in almost numberless instances united in cartels, syndicates, or other groups. These combines extend largely to dealers as well as to producers and involve limitation of output, agreement as to prices, and many forms of regulation of terms and conditions of selling. Furthermore German industrial organization is related in an unusually intimate way with German banks and leading

¹¹ U. S. Federal Trade Commission, *op. cit.*, pp. 98-115. This publication is not strictly up-to-date, but it represents the most comprehensive official compilation of data on combines in various countries, and is very useful if taken together with scattered materials of later date. Notz, W. F., and Harvey, R. S., *op. cit.*, is an interesting book of somewhat later date. For miscellaneous detailed data of current nature, concerning both German and international cartels, *vide* the periodical, *Kartell-Rundschau, Monatschrift für Recht und Wirtschaft im Kartell und Konzernwesen*, edited by Dr. S. Tschierschky.

banks assist in financial combines and in some cases participate in the industrial control. There are also additional affiliations, including arrangements for the special promotion of foreign trade and including cooperation on the part of railways and shipping lines, so that German enterprise has been woven together into a total business structure looking particularly toward foreign activity in ways not exactly similar to, but to an extent scarcely less than, that of the British structure. The prevailing form of combination has been the cartel. The ordinary cartel is not so unified an organization nor so permanent a one as the merger or trust or amalgamation. It has been defined as "an association, founded by contract for certain periods of time, of independent enterprises belonging to kindred branches of industry or of branches of industry with nearly identical interests, the individual members of the association retaining their independence but joining for the purpose of regulating production and sales according to common points of view and in the common interest." It might in fact be described in American terms as a glorified trade association, with of course a much greater degree of common control than is permitted to trade associations under the American law. However, not all of the larger German combines are merely cartels in this sense, for some of them are syndicates with a much greater unity. It has been estimated that the number of German cartels was 14 in 1879 and was 550 to 600 in 1911. Some of the German industries where cartels have been more pronounced are those of coal, iron, non-ferrous metals, chemicals, textiles, leather, rubber, wood, paper, glass, bricks, stones and earth, clay, food-stuffs, and electrical products. In some of these the number of cartels has been large, at times more than 100. But the existence of a large number of cartels does not necessarily represent the

highest degree of combination, rather the contrary, since the affiliation of the various enterprises in a given industry into a small number of combines obviously makes for a larger degree of unity. The German cartels are of three general types (1) agreements covering selling terms, (2) price cartels, (3) selling cartels. The selling-terms cartels are the lowest form of cartel organization and their chief purpose is to establish uniform regulation of terms of payment and of samples, and they have been associated, as in the case of silks, umbrella goods, and worsted spinning industries. The price cartels have been the most numerous class. Some of them fix prices directly, others fix a maximum output and make allotments to each member; some establish a division of sales territory among members, and still others allot to different members the production of different types of goods. The true selling cartels are the most highly developed type. Their chief feature is a central selling agency uniting the selling business of the entire organization. The processes of production may be left to the syndicate members but even this is frequently subject to cartel control. The central selling may be carried on through a member of the combine, through an outside house or bank, through a counting house or office established by the cartel itself, or through a stock or limited liability company established by the cartel for this purpose.

The particular importance of the cartel organization with respect to foreign activities is indicated by the ~~fact~~ that most of the important cartels engage in export trade and that in many instances they have established selling agencies for the particular purposes of export. A further interesting point concerning the status of cartels is that they are permitted by law to settle difficulties arising under the agreement by means of a board of arbitration which is separate

from the regular courts of the country. In fact the public policy has been rather highly favorable to the existence of cartels. As in many other countries German law includes provision against unfair trade practices,* but such practices do not involve combination and in fact there is no prohibition against cartels. The traditional government policy with regard to cartels was expressed a short time before the war by the Minister of the Interior who said that in modern economic development syndicates are inevitable and to a certain degree useful, especially since by concentrating supplies commodities may be more efficiently utilized and price stabilization may extend stabilization to other things such as wages; he pointed out that where syndicates attained too large a power the state might have to intervene and convert them into state monopolies¹². Indeed in certain instances the German state has intervened in cartel operation. In some of these cases the purpose was a restrictive one; for example in 1908 the government was dissatisfied with the high prices asked by the German coal syndicate and brought it to terms by obtaining British bids for supplying the German navy. In other cases, however, the government has intervened not so much to restrict but to strengthen the syndicates and support their operations; this has been true in the notable case of potash. Also in other instances the government has participated, as in the case of government ownership of certain coal mines and potash mines. In any event industrial combination is not prevented but is rather promoted by German law and public policy.

¹² In 1923 Germany passed its first law substantially restricting combines. A decree provided that cartels and other combines would not be permitted to be "prejudicial to the public welfare," and a cartel court was established. However, the law recognized the legality of such organizations, and it may be questioned whether this constituted any radical departure from the traditional policy.

The German cartels have been so numerous that to list them would be a mere matter of compilation. However, some idea of their industrial scope may be obtained by noting the fields within which they operate. Their adaptability is greatest in the industries producing raw materials and semi-finished products, since staples and bulk articles and goods manufactured in large quantities can be most easily controlled by their agreements. Typical cartels have existed in the cases of glass, cellulose, printing paper, leather, hides and skins, food products, and beer. Non-bulky articles involving special skill and a limited market do not lend themselves to cartelization so well, but even in such cases cartels have existed, in some instances uniformity being maintained by having an appraiser fix the price of each article. However the coal, iron and steel, chemical, textile, and other mining industries have witnessed the largest development of combinations, and the coal and steel syndicates have been notable. A particularly significant German syndicate has been the one for the monopolistic control of potash; this organization, supported by special government policy, was powerful before the war and since the war has remained an important factor in international economic relations.¹³ Reference has been made to the foreign activities of the German cartels. Such activities have been of various kinds. They have included remarkably widespread affiliations with production and marketing organizations of other countries, and have particularly influenced German export trade proper. A most significant aspect of this effect upon export trade has existed in the case of the old steel syndicate which not only had a central selling agency, but paid bounties. The export bounties of the *Stahlwerksverband* from 1906 to 1915 varied from 5 to 15 marks per ton of half finished products con-

¹³ *Vide* subsequent paragraphs for discussion of the potash syndicate.

sumed¹⁴ Such practices offer the most significant illustrations of the importance in international business of the organization and activity of German domestic enterprise¹⁵

ORGANIZATION IN OTHER COUNTRIES

Industrial organization on combination lines exists in many other important countries French industry is more noted for its specialized production of particularly fine and artistic wares such as silks and laces and wines than for its bulk production of staples Nevertheless in France there are also many basic industries and there are many industrial combinations, even though these combines have not been so highly developed as in Germany and Belgium Such combines have existed in the case of coal and iron, iron and steel products, plaster, cement, phosphates, sulphuric acid, petroleum dynamite, silks, tiles, and dyes Combination has taken various forms, including mergers similar to those of England and the United States and cartels more akin to those of Germany Instances of the former have existed in the case of the electric industry and in the case of a large consolidation in the glass and chemical industries The latter, that is, the ordinary cartels, are usually not so unified as those of Germany, leave production proper to the member concerns, and do not even have central selling agencies, however prices are fixed, and sales and sales territory are allotted The *comptoir* is a special form of combination which has been particularly developed in France, and has largely covered the iron and steel industries and has found notable ex-

¹⁴ U S Federal Trade Commission, *op cit*, p 214

¹⁵ For further earlier data on German industrial organization and its foreign activities, *vide* also U S Department of Commerce, *German Foreign Trade Organization* (by Snow, C D), 1917, Miscellaneous Series No 57, U S Department of Commerce, *German Trade and the War*, (by Snow, C D, and Kral, J J), 1918, Miscellaneous Series No 65

pression also in the case of salt production. The comptoir is an incorporated company composed entirely of manufacturers who turn over to it the function of marketing their products. It is therefore somewhat analagous to the central selling agencies of the German cartels. As a rule the comptoir does not undertake to sell the entire output of the members, but rather arranges for a certain quantity which is apportioned among the members who agree to make no sales in market areas reserved for the comptoir; prices are fixed by the comptoir, but it makes no profits, all surplus going to the producers.

French law and policy is favorable to combinations, the law has for a long time contained provisions against monopoly, but price maintenance agreements have been held to be legal. Compulsory syndication as found in Germany is not characteristic of France, but the government itself possesses an absolute monopoly of tobacco and matches. There are some export comptoirs but they are not so important as in certain other countries.

Some of the industries in which combination has been most important include pig iron, iron and steel products, and sulphur refining. In the case of the aluminum industry there has been affiliation of domestic combines with an international syndicate. An organization of manufacturers of wrapping paper has been important, and several combinations have existed in the salt industry, with division of market territory. One of the most famous French combines has been La Compagnie de St. Gobain which is not only one of the chief producers of plate glass but is also engaged in the manufacture of chemicals and has also had affiliations with an international plate glass syndicate which existed prior to the war. If French industrial combination has not reached so high a point as that of certain other leading

countries, at least it has been of much importance and in a number of instances has taken its place in participation in international industrial organization¹⁶

Belgium, a highly industrialized country, has been active in industrial organization at home and abroad. The law prohibits conventions contrary to the public interest and interfering with the free exercise of industry, but no particular difficulties have existed in syndication. Combination, with provisions for price fixing, limitation of production, and partition of market areas, has been important in the cases of coal, steel (a central combination), glass, cotton textiles, Portland cement, and many other products. In other cases a consortium has been formed for the purpose of developing industrial and trading activities in certain parts of the world, as in Japan¹⁷

The Italian government permits combination, in some cases compels and supports it, and promotes industry and commerce by bounties and subsidies. Aside from the compulsory combinations established by the government in certain instances the cases of Italian combinations have not been so numerous, but the movement has progressed considerably in recent times and has included metallurgy, superphosphates, and textiles. In 1908 a law provided for a commission for the promotion of the citrus fruit industry. This body furnishes certificates of analysis for shipments, sells for producers, and advances money to them, makes tests on the products analyzed, and fixes prices. Analysis is required but sale through the commission is not compulsory. A most noteworthy case of combination in Italy is that with respect to sulphur. The compulsory syndicate formed in this case and its participation with the sulphur interests of the

¹⁶ U S Federal Trade Commission, *op cit*, pp 115-126

¹⁷ *Ibid*, pp 127-130

United States form one of the most interesting instances of international industrial affiliation and will be discussed below.¹⁸

Industrial combination of the Occidental type is not prevalent in Japan, but extremely large combines built on distinctive lines are present there. These organizations are characterized by the fact that they center in many instances around family interests, and by the fact that they frequently extend not simply to one industry but to many fields of production and other business activities, including importation and exportation and the ownership and operation or control of plantations, mines, factories, shipping companies, and banks. They include the various Mitsui Companies, the undertakings of the Sumitomo family, and the Okura-Gumi, Takata interests, and the Suzuki interests. These interests generally work in close cooperation with the Japanese Government itself and in fact that government in a number of cases participates in enterprise. While foreign enterprise is somewhat limited in its activities of its own right in Japan, it has frequently cooperated with the Japanese interests, as in the case of a large American electric company, for manufacture and sale in Japan. The cooperation of Mitsui Companies is perhaps the largest single affiliation of industrial and commercial interests within a nation and is largely typical of the combination situation in Japan.¹⁹

Industrial combinations are found in many other countries for both purely domestic, and domestic ~~and~~ foreign activities. In fact in the modern industrial organization of the world the task is rather to find regions where such organization does not exist than to find cases where it does exist — at least so far as the leading industrialized countries

¹⁸ U. S. Federal Trade Commission, *op cit*, pp. 130-139.

¹⁹ *Ibid.*, pp. 147-154.

are concerned In Switzerland combinations have extended to the production of watches, chocolate, condensed milk, machinery, cheese, embroideries, and silk The affiliation of the silk industry with that of other countries has been important

In Sweden the combination movement has tended to take the form of trusts rather than of cartels Dutch syndicates have been affiliated with international syndicates In Canada and Australia there has been a movement not greatly unlike the trust movement in the United States, despite the Australian policy of regulation of economic activity along rather unusually democratic lines Even in Russia prior to the war, in spite of the only partly developed condition of manufacturing industries, there were certain combines and in the case of certain metals these led to international affiliations which were of considerable importance ²⁰

ORGANIZATION IN THE UNITED STATES, AND THE WEBB ACT

The history of industrial organization in the United States discloses a marked movement toward combination Such combination has taken a number of forms, varying from mere price agreements to pools and mergers, but the most typical cases have been those involving a considerable degree of unity and permanence To most of these organizations the term "trust" has come to be generically applied; a true trust is a specific form which in many instances has not actually been present, but the term is commonly applied to all combines and has come to signify, at least popularly, the American form of business combination, with a large degree of unified control of production as well as of sale —

²⁰ *Ibid.*, pp 140-147, 155-160

a unity considerably greater, for example, than that of most of the German cartels ²¹

Against such combines public policy crystallized rather sharply in the latter part of the nineteenth century, and culminated in a number of measures to prevent or dissolve them. These included an application of the common law doctrine concerning restraint of trade and, largely upon this basis, certain legislation by the individual states and a series of Federal statutes and court decisions beginning with the Sherman Anti-Trust Act of 1890 ²² and including the Wilson Tariff Act ²³ of 1894, the Panama Canal Act of 1913, ²⁴ the Federal Trade Commission Act of 1914, ²⁵ and the Clayton Act ²⁶ of 1914. The Sherman Act prohibited all contracts, combinations in the form of trusts or otherwise, and conspiracies in restraint of trade, and all monopolies in restraint of trade (that is, interstate and foreign "trade or commerce"). The subsequent acts developed this policy and specified various types of restraint of trade and enumerated unfair trade practices which were not to be permitted. Thus in the United States the restraint of trade doctrine was definitely extended to include industrial combines. In spite of this policy many large organizations were developed, but there is no doubt that the movement was at least partly checked by its enforcement. During the World War, how-

²¹ For a classification and description of the various forms of business combination in the United States and an account of their growth, see Haney, L. H., *Business Organization*, for an analysis of law and public policy affecting them, Jones, E., *The Trust Problem in the United States* (1922), and Svenson, R. J., *The National Government and Business* (1924), for a detailed treatment of the application of the anti-trust policy to domestic enterprise in its foreign activities, and especially of the Webb-Pomeroy Law, Noz, W. F., and Harvey, R. S., *op cit.*, pp. 3-315.

²² July 2, 1890, 26 Stat. 209.

²³ August 27, 1894, 28 Stat. 570.

²⁴ March 7, 1913, 37 Stat. 560.

²⁵ September 26, 1914, 38 Stat. 717.

²⁶ October 15, 1914, 38 Stat. 730.

ever, at a time when the United States was being drawn more fully into participation in world business, partly because of the economic effects of the war, but in reality more because of the fundamental evolution of American national economy, there was a growing feeling that, however desirable this "anti-trust" policy might be for domestic purposes, it was unduly handicapping American enterprise in its competition in world business with the more effective organizations of other countries. The Federal Trade Commission made an extensive investigation of the combination system in various foreign countries. As a result it pointed out the disparity between conditions in the United States and elsewhere, saying "In domestic business, competition, independence, and the play of individual forces is the settled policy of this country. The law requires that this shall be the condition of business here. Abroad the legal conditions are different. In many countries combination is permitted and in some is even encouraged."²⁷ It recognized that there were already in existence many very large American organizations doing an international business but observed that many smaller business units were without the advantage of size or cooperation, and that this advantage is particularly necessary in the case of staples, which occupy so important a place in American export trade. Consequently, it recommended²⁸ special permissive legislation along these lines, with certain safeguards to prevent such combinations from monopolistic operations within the United States.

In 1918 the Webb-Pomerene Law, commonly known as the Webb Act, was passed.²⁹ In brief, this act exempts export trade associations from the combination prohibitions of

²⁷ U S Federal Trade Commission, *op cit*, p 375.

²⁸ *Ibid*, pp 379-381

²⁹ April 10, 1918, 40 Stat 516

the anti-trust laws so long as they do not attempt to carry on trade within the United States or to monopolize domestic commerce,³⁰ and permits one corporation to acquire the stock of another if the latter is a purely export concern,³¹ but gives to the Federal Trade Commission the power of suppressing unfair methods of competition among such organizations,³² and requires the organizations to register with the Commission.³³

Thus American policy was liberalized with respect to combination in a way designed to place American organizations upon a plane of equality in competition in international business. A number of organizations have been formed under the act. But there is some doubt as to whether the system has been utilized as much as had been expected, particularly by the smaller concerns which it was presumptively arranged to assist. In any event it is of prime importance to note that the act extends to export trade alone, and includes neither import trade nor the performance of manufacturing processes abroad, as by branch plants. While it permits combination of domestic manufacturers for the export sale of their products, it apparently does not embrace combination for production, and it is to be distinguished from the policy of other leading countries, and has no particular bearing upon international combinations. Where such international combinations, in either production or sale, come within the scope of the American anti-trust laws they are still amenable to its restrictions. On the other hand, the largest competition in world business is apparently that which goes on between the very large organizations, and organizations of this type³⁴ had already developed without

³⁰ Sec. 2³¹ Sec. 3³² Sec. 4³³ Sec. 5

³⁴ *E.g.*, Concerns of the type of the U. S. Steel, Standard Oil, International Harvester, Singer Sewing Machine, Remington Typewriter, and General Electric Companies.

the aid of the Webb Act. Indeed, many of them are known to have established or obtained control of subsidiaries, or to have formed affiliations with other large organizations, in other countries. The extension of domestic enterprise into foreign fields, in production as well as in marketing, and the international knitting together of large industrial organizations, proceeds more or less inevitably in the present order of increasing unity in industry.

THE TREND IN ORGANIZATION AND FOREIGN ACTIVITY

There is no evidence that the movement toward industrial combination for both domestic and foreign purposes has lessened. The disturbances of the World War necessarily dislocated many such organizations, especially in so far as they involved affiliations of business interests of countries which were aligned against each other in that conflict, but both the immediate and the more fundamental effects of the war were largely to promote the movement.³⁵ For example, in Germany there was a growth of compulsory syndication for war purposes,³⁶ and in that country just after the war industrial organizations were so powerful and so stable in comparison with political organizations that some of them were given semi-political duties in such fields as that of tariff administration.

Furthermore, in so far as governmental policy is a factor, there has been a post-war tendency toward increasing official approval, as witnessed by declarations of official British Committees, and, to some extent, by the Webb Law of

³⁵ Notz, Wm, "Cartels During the War," in *Journal of Political Economy*, January 1919, Vol. 27, No. 1, pp. 1-38.

³⁶ U. S. Department of Commerce, *German Trade and the War*, pp. 55 et seq.

the United States³⁷ As in the case of the dyestuff industry, a number of leading governments actively encouraged or supported the movement³⁸ The post-war wave of renewed nationalism, somewhat temporary but in some respects a real force, tended all the more to promote unity of national industrial organization for international competition in such leading countries as Great Britain, other countries of the British Empire, Japan, and the United States The formation of the Federation of British Industries, comprising some sixteen thousand manufacturing companies, while not a case of merger or cartel but rather of mere association, is indicative of the trend But the new nationalism, at least in mat-

³⁷ Some observers see a later contrary tendency For example, Notz, Wm. F., in an article on "Recent Developments in Foreign Anti-Trust Legislation," in *Yale Law Journal*, Vol XXXIV, No. 2, December 1924, refers to a German "Decree against the Abuse of Economic Power" (issued November 2, 1923, under an enabling Act of October 13, 1923) as Germany's first real cartel law, which law recognized the legality of cartels and other combines but stated that they shall not be permitted to be "prejudicial to the public welfare," and established a cartel court with exclusive jurisdiction in cartel matters, the article refers also to other laws restricting combines which had recently been adopted in countries previously possessing no real anti-trust legislation, and observes a general tendency toward greater restriction than had been present in the war and immediate post-war period It seems clear, however, regardless of such laws, that the number and effectiveness of industrial combines, operating nationally and internationally, is at least as great at the present time as previously, and that this phenomenon is an established part of the present-day system

³⁸ One of the many examples of the trend, too numerous to catalogue here, is that of British Sulphate of Ammonia Federation, Ltd., formed in 1920 for the purpose of having a central sales organization One section of its sixth annual report, in 1926, dealt with an arrangement whereby a new selling organization, Nitram Ltd., was organized, to handle other materials in addition to sulphate of ammonia This report pointed to the fact that "similar bodies are already in existence in Germany, France, Italy, and Belgium" — U. S. Department of Commerce, *Chemical Division Circular No. 156*, January 11, 1927 NOTE No attempt is made in this chapter to describe the numerous cases of governmental subsidies and other assistance to industries partly involving aid for foreign activity Thus the British Trade Facilities Act of 1921 was estimated, late in 1926, to have resulted, in addition to assistance to other industries, in 30 loans for activities abroad, totaling £13,652,000

ters of business tends necessarily to abate, and the prevailing trend in the industrial organization for foreign business is one of increasing combination not only along national but, most significant, along international lines. Modern industrial organization partly involves, therefore, international competition, but of greater importance is the fact that it tends more and more to override national boundary lines and to involve international cooperation. Such direct international business affiliation and coordination will be particularly considered in the following chapter on the status and organization of foreign and international enterprise.

CHAPTER IX
FOREIGN AND INTERNATIONAL
ENTERPRISE

INTERNATIONAL ECONOMIC ACCESS AND
WORLD TRUSTS

IN THE foregoing analysis of the status and organization of domestic concerns for purposes of foreign business some indication has been given of the degree to which industrial enterprise goes beyond the confines of national boundaries. But the full extent of this process is to be found only in an examination of the status and organization of foreign and international enterprise. In other words, in the preceding chapter industry was viewed from within the nation looking outward, and following this, it must be viewed from without looking inward and in its broader aspects which more or less completely transcend political boundaries. In such an examination is disclosed the remarkable extent to which international business is world business,—with a system of infinite ramifications by which such business, consisting basically of production industries and supplemented by commercial and financial arrangements, has become in many ways a world structure.

THE STATUS OF FOREIGN ENTERPRISE

The status of foreign enterprise, like that of domestic enterprise conducting foreign business, may be surveyed briefly

with respect to incorporation, combination, and taxation, to which may be added certain special questions of status such as that of concessions and that of so-called industrial property rights

INCORPORATION

There is naturally much variation in the legal systems of the various countries as they affect foreign enterprise, although the most significant point is that they involve, generally speaking, as little restriction and discrimination as they do. Few nations today are like Afghanistan or like China of the 18th Century. Most of them permit substantial freedom to foreign enterprise, even though it may be abridged in important particulars. The truth is emphasized by the very fact that such restrictions as exist are the subject of comment and frequently of diplomatic representation. Broadly speaking, it may be said that not only in trade but also in industry nations recognize a common undertaking, and that the cases of governmental barriers built upon nationalistic lines are the exception rather than the rule, in viewing the trees of restriction, in present day international relations, the forest of economic unity is often obscured.

Commerce Codes. The chief distinction concerning the legal status of foreign enterprise among the leading countries rests upon the difference between those legal systems which possess and those which do not possess a commercial code.¹ As remarked in an earlier chapter, generally speaking the Anglo-Saxon system of law includes two codes, a civil and a criminal, and in the civil code and to a lesser extent in the criminal code, are found provisions affecting the status and sphere of operations of business enterprises, do-

¹ Cf. compilation, *The Commercial Laws of the World*, cited, *supra*, chapter on "The Legal Factor."

mestic or foreign. In other countries the legal structure of which is modelled upon the French pattern, there exists a third, separate code, that is, the commercial code. This code not only regulates business enterprise, but also provides for registration and sometimes for special adjudication by commerce courts. This system, though not without its difficulties, possesses certain advantages, in that commercial law is in some senses better clarified and standardized and more expeditiously enforced.

In most cases the commerce courts have registry offices where every individual or firm, national or foreign, must register for purposes of conducting business, and must file information of various kinds, including facts concerning the organization and even reports of activities and financial status. It is sometimes considered that, generally speaking, foreign corporations are permitted greater scope of action and greater elasticity in business methods in countries where the commerce code exists, although they are at the same time more strictly supervised by the government.

Leading Countries. The situation in several leading countries with respect to foreign corporations and agencies of foreign corporations may be referred to briefly.

In Great Britain there are no special laws applicable in a discriminating way to foreign enterprise.² If foreign nationals merely trade with Great Britain from their own countries obviously they are under no liability with respect to registration or taxation. If business is carried on in Great Britain by the foreign national himself, or for his account by an agent,³ such foreign individual or concern must duly

² U. S. Department of Commerce, *Commercial Laws of England, Scotland, Germany, and France* (by Wolfe, A. J. in collab. with Borchard, E. M.), S. A. Series No. 97, 1915, pp. 9-17, U. S. Department of Commerce, *Commerce Reports*, March 22, 1926 ("Doing Business in Great Britain from a Tax Viewpoint," by Carroll, M. B.).

³ That is, an individual, firm, or corporation, or branch, as direct agent in the strict sense — acting in the name of the principal.

register, filing if a company, a copy of charter or articles of incorporation and by-laws, a list of directors, and names and addresses of one or more persons resident in England, to accept service of process and other notices. Such registration is made with the Registrar of Companies for England and Wales, and with the Exchequer Chambers at Edinburgh for Scotland. There are no general laws preventing foreign ownership or participation in ownership of industry.

In the United States generally no distinction is made between American or non-American enterprises in the corporation laws. Incorporation is within the respective jurisdictions of the several states, the corporation laws of which frequently distinguish between so-called domestic and foreign corporations, but the terms are here used usually in an interstate, rather than an international, sense.

In Germany, "with regard to foreign corporations, no special provisions are made in the Civil Code." and "the capacity of a foreigner to do business is judged by the laws of the country of which he is a subject or citizen."⁴ There are commerce courts and industrial courts, but these are only for special cases and have rather limited, special jurisdictions. A foreign individual, firm, or corporation establishing a branch in Germany must comply with the usual provisions of the Commercial Code with respect to registration.

In France a foreign corporation which opens a branch establishment has all the rights of a French corporation. The registration procedure includes filing papers with the Registration Office and obtaining acceptance by the Director-General of Companies of a responsible French representative.⁵

Without further detailed references to the commercial

⁴ U. S. Department of Commerce, *Commercial Laws of England, Scotland, Germany, and France*, pp. 24-68.

⁵ *Ibid.*, pp. 69-106.

laws of various countries⁶ it may be observed that the leading nations generally impose no special restrictions upon foreign enterprise, nor upon foreign ownership or participation in ownership of industrial property, beyond the usual formalities of registration and provision of responsible representation and the requirements of conformity to the commercial laws of the country

However, it can by no means be said that the freedom of international enterprise is complete. Important countries restrict alien ownership of property, and in certain instances governments outside of their ordinary commercial laws impose special restrictions upon such activities as the exploitation of natural resources

In Japan,⁷ as in the leading European countries, the right to do business is contingent upon registration, which applies to both corporations and branches. Such foreign corporations and branches may conduct practically any business, under the same conditions as a Japanese company, but they cannot carry on operations that are restricted to Japanese subjects. This exception is important, since an alien cannot own land or operate mines or operate ships under the Japanese flag. He may acquire stock in a ship-operating company, but the majority of the stock must be held by Japanese subjects. Some Japanese companies themselves prohibit sale of their stock to aliens, but this is a private matter not resulting from commercial law. However, by law aliens are prohibited from owning stock in the semi-public banks (the Bank of Japan, the Yokohama Specie

⁶ For a detailed treatment of many of these and bibliographies on the subject, *vide ibid.*, also data compiled by the Division of Commercial Laws, Department of Commerce, appearing from time to time in *Commerce Reports*. *Vide* also Appendix, *infra*

⁷ U. S. Department of Commerce, *Doing Business Under Japanese Company Laws* (by Rutter, F. R.), T. I. B., No. 46, 1922.

Bank, and the "agricultural and industrial banks") and in stock and produce exchanges. But companies incorporated in Japan, regardless of nationality of stockholders, may own land and operate mines. Thus, while foreign enterprises, if established as Japanese companies, may conduct business on practically the same footing as domestic enterprises so incorporated (that is, registered), and while such foreign enterprises even if registered as foreign branches, may conduct many types of business, the limitations upon the economic rights of aliens in Japan are important.

An extreme type of policy restrictive of the rights of foreign enterprise is that of Soviet Russia. In the early days of the Soviet régime, when the attempt was made to abolish private capital, foreign enterprise was at least nominally debarred from operations within Russia. With the establishment of the so-called N E P (New Economic Policy) the system was somewhat moderated, and foreign capital was in some cases encouraged to enter. The new system⁸ included special economic rights of foreigners under specific treaties, rights for other foreigners as granted by the People's Commissar for Foreign Affairs, certain limited rights to establish small industries (the large or essential industries still being nationalized), limited and carefully controlled rights with respect to mercantile property and patents and trade-marks, privileges of carrying on foreign trade under license from the Government (foreign trade being a government monopoly), and, perhaps most significant, special concessions to exploit resources and carry on other industrial and commercial activities under particular conditions specified in each case by the Soviet authorities — one such condition being the reversion of ownership to the Russian state

⁸ U S Department of Commerce, *Commerce Reports*, June 16, 1924 (Rights of Foreigners Under Soviet Laws)

at the end of a given period. The gradual liberalization of policy in these respects and the supposedly numerous foreign concessions consequently granted were significant indications of the Soviet realization of its need of foreign enterprise for the development of its resources and industries.

Between these extremes are many special restrictions of varying types. As seen in the case of Japan, leading countries may offer technical freedom to foreign enterprise, but while giving with one hand may take away with the other. Even in France, it was reported in recent years (1922), a legislative bill was drafted which proposed to forbid all foreigners to hold real estate in France or to lease property for more than nine years without formal governmental approval, existing foreign-owned real property to be passed upon and sold in case of refusal of approval, this proposal being protested by the American Government under the Franco-American treaty of 1853 which established reciprocity with respect to real estate ownership. In some cases such exclusion is prevented or made difficult by the terms of existing treaties, but in many cases it is not. Other cases of actual or attempted restriction of rights of foreign enterprise in specific matters are too numerous and various to enumerate or summarize, but it may be said that probably the most common type of such restriction is that placed upon the exploitation of natural resources, particularly of petroleum and minerals considered to have a strategic character. Many of these cases will be noted in subsequent chapters. They are not unnatural in view of the increasing emphasis placed by the governments of leading countries upon the importance of supplies of essential materials for industrial and military purposes .

Yet the surprising thing is, not that there are so many of these restrictions, but rather that there are so few and

that in an order which is politically nationalistic the business interests of one country are generally permitted not only to trade with those of other countries but also to enter the political confines of most other countries for purposes of both trade and general industrial activity, frequently on practically the same basis as domestic enterprise. Indeed, the restrictions placed by national policy upon international trade proper are probably greater than those put upon foreign industrial enterprise itself. International trade is rather distinctively "foreign" trade, but foreign enterprise often blends almost imperceptibly with "domestic" enterprise.

COMBINATION IN FOREIGN ENTERPRISE

The legal systems and the economic policies of the various countries apparently set up no special restrictions whatever with respect to combinations of foreign enterprise. Foreign industrial organizations may combine to whatever extent is permitted generally by domestic law. For example, in the enforcement of the American anti-trust laws, the American Government has proceeded against affiliations of foreign and domestic concerns, as in the case of the British-American tobacco combine, but this has been merely an application of domestic law without regard to nationality. In a sense the large international industrial combines have extended their operations into a sort of political no-man's land where there is no government or law, although they are of course separately liable to the laws of each country in which they incorporate or operate. Certainly there are many such affiliations, and while in some respects they are regarded as menaces to industrial democracy, in other respects they must be viewed as striking and fortunate examples of an economic world unity which is much greater than world political unity.

TAXATION OF FOREIGN ENTERPRISE — THE
PROBLEM OF DOUBLE TAXATION

Much of the question of the taxation of foreign enterprise is comprehended in what has been pointed out regarding incorporation. Naturally enough, foreign enterprise is taxed as well as domestic enterprise. But generally speaking it is not subject to any large degree of discrimination, in the various countries, that is, to special taxation because it is foreign, and this is true of foreign securities as well as foreign branches. For example, in Europe there are relatively few special tax provisions for foreign securities.⁹ In France, while "the tax rate is virtually the same as for French securities," foreign securities may not be issued or quoted on the bourse until a responsible French agent has been named. In Belgium there has been a special stamp tax on security issues of foreign companies, and in other countries there have been some cases of special taxes placed upon the capital of foreign companies employed in operations in such countries. But these are in the nature of exceptions which prove the rule.

For the most part foreign companies are taxed in the same manner as domestic concerns, the tax applying to that part of the business carried on within that country.¹⁰ In Great Britain this is the case. The so-called "rates" payable to municipal authorities and based upon rental value of premises, and the indirect taxes such as the stamp tax on

⁹ U. S. Department of Commerce, *Taxation of Securities in Europe*, by Carroll, M. B.), T. I. B., No. 326, 1925. *Vide* also other bulletins of the Division of Commercial Laws, Department of Commerce, regarding taxation in various countries, e. g., T. I. B.'s 190, 242, 249, 258, 282, 287, and 296. *Vide* also Appendix, *infra*.

¹⁰ U. S. Department of Commerce, *Commercial Laws of England, Scotland and Germany, and France*, pp. 15 *et al.*, *Commerce Reports*, April 30, 1923, p. 316, *Commerce Reports*, March 22, 1926, pp. 703 *et seq.*

various business documents, are levied upon foreign as upon British enterprise, the companies income tax is applied on that part of the companies' operations conducted within Great Britain. There is a twilight zone in the distinction between trading within the country and merely with the country, a law of 1915 declared that foreign non-resident principals should be assessable for income tax purposes in the names of their agents within the United Kingdom, but the Finance Act of 1922 provided that non-residents should not be so taxable in the name of a regular broker, and that only agents acting in the name of the principal should be liable in behalf of foreign principals. Certainly where trading is clearly with and not within the United Kingdom there is no tax liability. In France foreign corporations pay income on the "taxable portion" of the "total interests or distributed dividends," the amount which the registration of the company fixes as that part of the capital of the foreign corporation which is especially devoted to French business, and the tax is levied upon the dividend or product from this portion of capital. In Japan¹¹ the branch of a foreign company has the same tax status as a Japanese company, it is taxed upon the business done in Japan and the profits earned there. By way of summary it may be repeated that, with certain important exceptions and certain variations in details of application and computation: (1) When foreign concerns carry on business *with* a country they generally incur no tax liability by so doing, except, of course, for such special taxes as import duties, which, however, are at least in the first instance paid by the importer; (2) if foreign enterprises carry on business, by way of production or trade or otherwise, *within* a country, they, usually, in the case of

¹¹ U S Department of Commerce, *Doing Business Under Japanese Company Laws*, p 7

the leading countries, have the same tax status in such operations as have domestic concerns, including not only real property taxes but also income taxes; (3) in such cases the taxable portion of the business is usually, though not always, only that portion carried on within the taxing country

In view of these facts it might be supposed at first glance that there is little double taxation¹² of enterprise carrying on international business. There is, however, a considerable amount of such double or other multiple liability, and the problem is made more serious by the fact that at the present time income taxes are largely prevalent in addition to taxes on property and on other things such as documents. Income is much more fluid than real and many other kinds of property, and by flowing from different sources may be taxed at source and at residence, and the latter may include more than one place, such as place of incorporation, place of management, and residence of individual participant. In general, international plural taxation arises not because countries attempt to tax all of the business of enterprises conducting part of their business there, but because countries frequently tax all of the business, domestic and foreign, of their own enterprises, and also the business of foreign enterprises conducted within their borders¹³

¹² The question of international double taxation is not simply a question of foreign enterprise, for obviously it affects investments where no extension of management or operation occurs, and investments which are of neither industrial nor commercial character (e.g. purchase by a citizen of one country of bonds of a foreign government). In one sense it is a financial question, appropriate for treatment under the caption "Finance." However, in the present analysis of international industrial relations, which underly international commercial, shipping, and financial relations, the taxation of foreign enterprise assumes perhaps its most fundamental importance and must be taken into account.

¹³ The following illustrates the process. "If an American corporation forms a subsidiary company in one European country which in turn establishes sales agencies in other countries, tax liability is not only incurred in every country where business is done, but, in many instances, the

The tax systems of certain leading countries have been partly liberalized in this regard. Great Britain exempts its nationals under certain conditions from payment of tax on income earned abroad and subject to taxation there¹¹ The liberalizing process in the United States in a sense began with the passage of the China Trade Act of 1922, which to a certain extent, as noted above, exempted companies in-

profits of the sales agency are taxed. First, in the country where they are made, secondly, as profits of the subsidiary company, thirdly, as dividends of the subsidiary company, and fourthly, as part of the profits of the American company subject to the United States tax. If an American company has merely a branch establishment in another country, its profits are first taxed in the country of investment and then in the United States. If an American citizen owns foreign securities, the dividends and interest are frequently subject to taxation in the country of investment and subsequently to the income tax of this country."—U. S. Department of Commerce, *Commerce Reports*, November 15, 1926, pp. 387-388.

¹¹ An example both of the degree of liability of foreign enterprise and of the tendency toward exemption is found in the following summary of the system in Italy. "An exception to the usual principles of liability was made by the decree of November 16, 1922 (No. 1634); in order to invite the influx of foreign capital into Italy. Upon authorization of the Finance Minister, interest on loans contracted and bonds issued abroad before December 31, 1928, by corporations, communes, provinces, and other entities, is exempt, provided such loans and bonds do not constitute a transformation of debts already owed to foreigners. Foreign individuals and corporations are taxable in Italy on revenue derived from commercial or industrial operations in that country. The foreign enterprise is liable on its Italian profits if it does business in Italy continuously through a branch or agent acting in its name. On the other hand [in the case of a commercial, rather than an industrial, transaction], if it sells direct to Italian customers, even though orders are taken from time to time by an independent Italian broker but subject to the acceptance of the exporter, no taxation is incurred. The decree of December 16, 1923 (No. 3026), authorizes the Minister of Finance to grant, with the approval of the Council of Ministers, to corporations having their seat in Italy, an exempt on in respect to income earned by their branches or subsidiaries established in foreign countries, provided such income has been subject to similar taxation in the foreign country. This provision also applies to salaries and wages paid by such companies to their employees in the foreign branch or subsidiary who are permanently resident abroad."—U. S. Department of Commerce, *Commerce Report*, "Revised System of Taxation in Italy" (by Carroll, Mitchell B.), November 29, 1926.

incorporated under the act from payment of income tax on their China business,¹⁵ the credit allowed being computed as an amount equal to the proportion of the net income derived from sources within China which the par value of the shares of stock owned by citizens of the United States or China, resident in China, bears to the par value of all outstanding stock. However, the general exemption system for income earned and taxed abroad appeared as early as 1918, in the Revenue Act of that year. Finally, as also noted above, the United States Revenue Act of 1926, going beyond earlier acts, adopted more liberal features with regard to American business in all other countries. In substance it provided (1) exemption from income tax, under certain conditions, for Americans residing abroad, in respect of income earned abroad,¹⁶ and (2) credit for income taxes paid to foreign governments, but the difference to be collected by the United States if the foreign tax is smaller than the American tax.¹⁷ It also included certain exemptions to Americans on income derived in possessions of the United States¹⁸ and, following the acts of 1921 and 1924, provided for reciprocity¹⁹ in taxation of income from shipping business. These cases are indicated as examples of the tendency of leading governments to adjust their systems of taxation in such a way as to prevent or mitigate international double taxation, by exempting their own nationals, individuals and corporations, from taxation upon their foreign business or upon their income earned abroad. This tendency is so far from complete that, as stated above, much double taxation still exists, but it is in line with what is the most gen-

¹⁵ Section 21, amending Section 264, Title II, of Revenue Act of 1921

¹⁶ Section 213 (b) (14)

¹⁷ Section 222

¹⁸ (3) Section 262

¹⁹ Section 213 (b) *Vide supra*, Chapter VIII, p. 267.

erally prevailing concept, namely the theory of "origin" or belief that it is the country in which the business is transacted or the income arises, rather than the country of home residence of the company or individual receiving the income, that has the primary right of taxation. Or, perhaps more accurately stated, the concept appears to be that the most expedient solution is for what may be termed the "head-quarters country" to do the exempting and let the "country of origin" (of income), or what may be termed the "country of operations" (except for shipping), do the taxing.

The question of international double taxation in recent years has been the subject of considerable international attention.²⁰ In most of the international discussions of the

²⁰ L'Institut Intermediare International, the Hague, in 1919 undertook a survey of the problem and a collection of data, certain European States (including the "succession States" formerly of the Austro-Hungarian Empire) adopted resolutions at a conference in Rome, 1921, the Congress of the International Chamber of Commerce, London, 1921, also adopted resolutions on this question, the Brussels Financial Conference of 1920 considered the matter and referred it to the Provisional Economic and Financial Committee, which presented two memoranda, in 1921 the Financial Section of the League of Nations invited Sir Josiah Stamp, of London, Dr Seligman, of New York, and others, to report on the subject, which they did in 1923, the League formed a group of experts, who presented resolutions which were published by the League, February 7, 1925, a committee of the International Chamber of Commerce, headed by Prof. T. S. Adams, commented on these resolutions, a larger group met under the auspices of the League in May 1926 to draft types of bilateral and multilateral conventions for nations to conclude to solve the problem in their respective relations, a conference was called to meet in 1927, separately from the International Economic Conference to meet at Geneva in 1927. The special conference of experts, of 1927, considered model drafts of conventions. For basic treatments of the problem, *vide* esp. ff. League of Nations documents (1) *Memorandum on Double Taxation*, by Sir Basil P. Blackett, and *Note on the Effect of Double Taxation upon the Placing of Investments Abroad*, prepared for and circulated by Sir Basil P. Blackett, *Report on Double Taxation*, submitted to the Financial Committee by Professors Bruins, Einaudi, Seligman and Sir Josiah Stamp, *Double Taxation and Tax Evasion, Report and Resolutions submitted by the Technical Experts to the Financial Committee of the League of Nations*, Geneva, 1925. *Vide* also Appendix, *infra*.

problem two principles have emerged as apparently receiving the support of most nations, namely (1) national treatment in matters of taxation, that is, no discrimination against foreign enterprise, and (2) the primary right of taxation at "origin," that is, at place of activity or of source of income within the country where the investment is made rather than at place of headquarters of the enterprise or of residence of the investor. For example, the principles enunciated at the 1921 Congress of the International Chamber of Commerce included the following (a) "With regard to incomes earned and collected within a country, all taxpayers, both citizens and foreigners, whether resident in the country or not, should be treated alike, i. e., there should be no rebate in respect of income going out of the country," and (b) "if income earned and collected abroad cannot be entirely free from liability, it should be the object of a considerable rebate in consideration of the tax on such income already levied in the country of origin." Thus the tendency in both theory and practice is for the "headquarters" and investing countries to undertake the relief of double taxation and to leave the countries of "operations" of the enterprises and of investment free to continue taxation on such international business as comes within their confines.

However, the other side of the question has been pointed out.²¹ It is observed that where investments have already been made or operations begun and the country of place of investment or operations adopts new or increased taxes the

²¹ *Vide* League of Nations, Committee of Experts, *op cit*, and articles by Sir Josiah Stamp, published in the *Manchester Guardian*, Manchester, England, and reprinted in the *Economic World*, N. Y., October 14, 1922. For unofficial discussion of the problem of double taxation, *cf.* also art. on "International Company in Taxation," by Crobaugh, Clyde, J., in *Journal of Political Economy*, Vol. XXXI, No. 2, April 1923, and art. on "Double Taxation" by Max, George O., in *Foreign Affairs, An American Quarterly Review*, Vol. 5, No. 1, October 1926.

N. B. *Vide* also Appendix, *infra*.

result for a time may be actual double taxation, but that where such taxes are at all foreseeable or where they exist before the investments are made or the operations begun the effect is to deter foreign enterprise or in the case of investments to cause a natural economic repercussion, that is, an automatic adjustment of interest rate so as to provide standard yield over and above tax burdens. In a word, the incidence may be shifted. Viewed in this way it is the country receiving foreign enterprise or foreign capital and not the country sending it that should have the greatest interest, for its own welfare, in mitigating the rigors of double taxation. But this point is somewhat more applicable in the case of pure investment than in that of physical operations of industrial and commercial enterprise, and in any event such a question rests upon the relative ratio of supply of enterprise and capital in one country and the need of it in another country, and such a ratio, like that of supply and demand for commodities, is variable. The fact that it is the "home" countries which are beginning to take the lead in sacrifice of government revenue to relieve double taxation²² and facilitate the extension of business abroad in the

²² The following summaries illustrate the trends (a) "The experts proceeded to lay down rules. Income from real estate (or mortgage thereon) and income from agricultural enterprises are attributed to the country in which the property is situated, earned income to the country in which the services are rendered, income from business to the country where the business is conducted—an apportionment to be made if the business is carried on in more than one country provided that in each there is a real establishment and not a mere agency. Incidentally the experts recommended as a concession to practicability, that maritime navigation undertakings should be taxed in only one country, namely that in which the effective control was exercised—a provision similar to that in our own statutes exempting on a basis of reciprocity the earnings from shipping registered under a foreign flag. These rules have been approved by the International Chamber of Commerce and are substantially similar to those embodied in our own Federal legislation"—May, George O., *op cit* (in *Foreign Affairs*) (b) "According to the resolutions of the technical experts of the League of Nations, which will probably be reflected in the conventions to be drafted in January, income from immovable

present day order is primarily a process typical of the general extension of both capital and enterprise (using the term "enterprise" in the narrower sense) outward from the industrialized and capital surplus and "enterprise surplus" countries

It is also significant that in addition to the international discussions,²³ certain governments are not only taking legis-

property shall be taxed by the State in which the property is located, income from public funds, bonds, loans, and current accounts, in the State where the debtor resides, and revenues from shares or similar interests, in the country in which the real center of management of the undertaking is located. Capital invested in any industrial, commercial or agricultural undertaking, and other income from such enterprises or from any other trade or profession carried on permanently, shall be taxable in each of the countries in which stable establishments are located. The fees of managers and directors of share companies shall be taxable in the country where the undertaking has its real center of management. The salaries, or other remuneration of any kind paid to employees, shall be taxed in the country where they are earned. The principle inaugurated by the United States in the Revenue Act of 1921, regarding the taxing of shipping enterprises only in the country to which they belong, has also been recognized by the experts. The attitude of the double-taxation committee of the International Chamber of Commerce, on which a number of leading American citizens have actively served, is more practical. In the first place, the committee stresses that each of the States concerned may tax only that portion of the net income produced in its own territory, and that, therefore, the financial authorities of each State concerned may request the taxpayer to produce some documents but only such documents as may be relevant in determining the profit derived by the enterprise from the business carried on in that State. The Committee of the International Chamber of Commerce also proposes that an exemption be accorded to a foreign firm having merely an agency in the taxing country that is not an integral part of the foreign enterprise and is established on a basis of commission only. The remuneration of the agent alone should be taxable. In the meantime, many European countries have been trying to solve the problem of easing the tax burden on international trade by means of agreements. In 1921 a convention was signed at Rome by Austria, Hungary, Italy, Yugoslavia, Poland, and Rumania. Moreover, Austria, France, Germany, Great Britain, Irish Free State, Italy, Spain, Sweden, and Switzerland have been parties to bilateral treaties" — U. S. Department of Commerce, *Commerce Reports*, December 20, 1926, pp. 728-729 (art. by Carroll, Mitchell B., on "Tax Relief for International Trade Sought").

²³ International discussions tend toward more equitable treatment, not only in taxation, but also in other matters of status. Cf. proceedings of

lative steps to solve the problem, but are also considering bilateral and even multilateral conventions for mutual arrangements to solve it as a phase of their foreign economic relations, this is but one example of the possibility and desirability of extending "commercial treaty" structures to include much more than simply tariff matters. In other words, to make of such treaties "economic" treaties which, in either specialized or general form, may well be made to cover most if not all of the various phases of economic relations. Further, the fact that much attention is being given to international multiple taxation and that some steps are being taken by national governments to remove it, whatever form these measures may take, is one of many examples in different fields of business activity of the gradually increasing consciousness of the necessity of world-wide scope for economic processes.

INDUSTRIAL PROPERTY RIGHTS

A special phase of the problem of the international status of enterprise is that relating to so-called industrial property rights, that is, patent and trade-mark rights. Practically all countries where economic civilization is at all highly developed, have special systems for the establishment and protection of such rights. This is true even of those countries, such as the United States, in which private monopoly

Congress of International Chamber of Commerce, Stockholm, June 27 to July 2, 1927 (for digest — U. S. Department of Commerce, Commerce Reports, August 8, 1927, pp. 328-331). Cf. Resolutions of International Economic Conference, Geneva, 1927 I Liberty of Trading, — 1 Economic and Fiscal Treatment of Nationals and Companies of One Country Admitted to Settle in the Territory of Another (U. S. Department of State, Report of the Chairman of the American Delegation to the International Economic Conference, Geneva, May 4, May 23, 1927, Annex II, pp. 4-5). Vide also Appendix, present volume, infra

in industry and trade is generally opposed by public policy, for, while patents and trade-marks in essence are frankly grants of monopoly, they are generally recognized as desirable. The historical growth of this distinction is of incidental interest, since originally grants of special rights by "patent" extended to many other types of economic monopoly than they usually do at the present time. Moreover, certain phases of the present patent systems, such as the alleged nullification of new industrial methods by "suppression of patents" on the part of large business combinations, are occasionally criticized as conducive to undesirable types of monopoly in general. On the whole, however, the extension of at least temporarily exclusive rights to the inventors of new industrial devices and designs and to originators of distinctive marks for distinguishing industrial products, is considered largely beneficial to the promotion of industrial progress and commercial fair-play. Some idea of their place in the modern business system and of their importance in international industrial relations is obtained by reference to the (unofficial) report that the United States Alien Property Custodian in liquidating German property seized during the World War sold one trade-mark for a million dollars, and to the fact that patents covering intricate and advanced processes of industrial chemistry, and protected in various countries, had formed the key to the superior and partly exclusive pre-war position of the German dye and dye-stuff industry—an industry of such strategic war-time importance that other leading governments have latterly made strenuous efforts to promote it in their own countries.

Patents. Practically all countries have well-developed patent systems, that is, systems for grants of special rights upon industrial inventions and designs, and most of them are

parties to international agreements for the mutual protection of the patent rights of their nationals. A few countries, such as China, Persia, and Siam, have either no system or one which is not well developed, but in the case of China many other countries have special agreements among themselves for the mutual protection of the rights of their nationals within China.

An examination of the various leading patent systems discloses considerable differences among them, particularly as between the American system and all others. In general the patent laws of the United States are much more liberal than those of other countries, with generally longer terms of monopoly and with no major conditions attached to the grant. This liberality extends to both American and foreign nationals. A principal distinguishing feature of certain foreign systems is the "compulsory working clause," by which the patentee must work the patent in order to retain it. This is illustrated in the case of Great Britain, where a law of 1919 provided a special form of compulsory working, this is known as the "license of right" system, whereby a patentee may be compelled, upon abuse of his monopoly right, to permit others to utilize it, with payment of royalty fixed if necessary by a public official. Another recent example is the Canadian law of 1923, setting up a "compulsory license" system, with revocation of patent under certain circumstances. In the United States, on the other hand, there is no compulsory working clause. The adoption of one has been advocated particularly to prevent the alleged suppression of patents.

From the international viewpoint, however, the differences between the American and other systems is of much importance, since it results in larger privileges for foreign nationals who have taken out American patents than for

American patentees in other countries where the compulsory working clause exists. For example, a foreign patentee may manufacture his product at home and, without manufacturing in America, hold a valid American patent. The American patentee in order to insure the validity of his foreign patent frequently must maintain an expensive factory in the foreign country. The international agreements to which the United States is a party provide for reciprocity in such matters, but it is obvious that even the mutual extension of national treatment does not mitigate this inequality, and despite consideration of the question at meetings such as that of the International Convention on Industrial Properties of 1925, the problem remains, a problem which so far as the United States is concerned apparently can be solved only by a change in the American system itself.

Trade-Marks. Trade-marks, like patents, are protected by systems established in practically all countries. The trade-mark, unlike the patent, does not apply to an article itself but simply to a name or symbol, its protection is designed less to encourage invention and progress in the mechanics of industry and more to insure a kind of fair-play in trade, but the trade-mark right is also a monopolistic one affecting industry primarily. As an example of the various measures taken for trade-mark protection in addition to the trade-mark laws proper it may be noted that the United States Tariff Act of 1922, in Section 526, prohibits, under penalty of seizure and forfeiture, importation of goods bearing illegally used trade-marks owned by Americans and registered in the United States Patent Office.

As in the case of patents, a comparison of the systems of the leading countries reveals a fundamental difference between that of the United States and that of most other countries. This difference is between the "priority of use"

principle and the principle of "priority of registration." In brief the American system is based upon the former doctrine and the systems of the other leading countries involve the latter concept. That is, an individual or concern wishing to establish an exclusive right to a certain mark may in the United States adduce proof of prior use and such priority may be set up as against infringement by others even though the latter may have made prior registration. The international complications resulting in certain instances may easily be seen. For example, an American individual or concern may have employed a trade-mark for many years at home and may even have used it in a foreign market for some time, but if the precaution has not been taken to effect prompt registration within such foreign country a coincidental or piratical use of the same mark by a national of that country or a national of a third country is possible without liability for legal procedure on the ground of infringement. As in the case of patents the United States is a party to both multilateral and bilateral agreements providing for reciprocity in protection of such industrial property rights, but here again it is obvious that national treatment does not solve the problem of possible inequality resulting from the prevalence of fundamentally different principles in different countries.

While copyrights are of less industrial importance than patents and trade-marks, if indeed they may be considered industrial at all, it may also be observed that the leading countries have copyright systems and that a number of international agreements provide for the mutual protection of such rights.

International Patent and Trade-Mark Agreements. The various international agreements of recent years concerning industrial property rights may be noted. An international convention for the protection of industrial

property was signed at Washington in 1911,²⁴ superseding an earlier convention of 1883 and a protocol of 1891. This convention, to which the United States and other leading countries of the world are parties, covers both patents and trade-marks, creates a union for the mutual protection of such industrial property rights of the nationals of the signatories, and provides for an international bureau functioning under Swiss supervision. Under the terms of the agreement other nations not originally party to it may join from time to time. The convention pledges the signatories reciprocally to national treatment and contains clauses against importations of infringements. However, despite the creation of an international bureau patents must still be applied for separately in each country. The signatories reserve the privilege of making special bilateral arrangements concerning industrial property rights.

In 1908 there was signed at Berlin an International Convention for the Protection of Literary and Artistic Works. This convention replaced an earlier one of 1888, established a copyright union, created a copyright bureau in Switzerland, and provided for mutual protection of copyrights of the nationals of the signatories. Many leading states were parties to this agreement, but this did not include the United States.²⁵

In addition to being party to the International Patent and Trade-Mark Conventions of 1911, the United States is also party to certain inter-American agreements. In 1910 an Inter-American Convention for the Protection of Industrial Property was signed at Buenos Aires. The terms of

²⁴ *Treaty, Conventions, International Acts, Protocols and Agreements between the United States of America and Other Powers* (3 Vols.), Vol. 3, pp. 2953, et seq., also given in digest form in United States Tariff Commission, *Handbook of Commercial Treaties*, 1922, pp. 825-827.

²⁵ U. S. Tariff Commission, *op cit*, pp. 812-815.

this agreement were similar to those of the International Convention of 1911, most of the countries of the American hemisphere were party to it, and it provided for the establishment of a registration bureau in Cuba.²⁶ In the same year there was concluded a special Inter-American Convention for the Protection of Trade-Marks with the United States and most other American countries as parties, and with provision for two bureaus for the registration of such marks, one at Havana and one at Rio de Janeiro,²⁷ and also in the same year there was concluded an Inter-American Convention for the Protection of Literary and Artistic Copyrights.²⁸ Again in 1923 a new Inter-American Convention for the Protection of Trade-Marks was drawn up,²⁹ and this was ratified on February 24, 1925, by the United States.

As indicated above there are in addition to these international and other multilateral conventions, a considerable number of bilateral agreements existing among various nations for the further mutual protection of the industrial property rights of their nationals. Certain of these are of special interest because they provide for such mutual recognition of the rights of the signatories in third countries where domestic systems covering such rights are not well developed. These special arrangements take various forms, some of them being embodied in treaties and some consisting of agreements by exchange of notes. A considerable number of them have been concluded between the powers with respect to Chinese territory. An example of this sort is found in an agreement effected in 1905 by an exchange of notes between

²⁶ *Treaties, etc*, Vol. 3, pp. 2930 *et seq.*, *Handbook of Commercial Treaties*, pp. 812-822.

²⁷ *Treaties, etc*, pp. 2935 *et seq.*, *Handbook*, pp. 819-921.

²⁸ *Treaties, etc*, pp. 2925 *et seq.*, *Handbook*, pp. 818-819.

²⁹ 66th Congress First Session, *Protection of Commercial, Industrial, and Agricultural Trade-marks and Commercial Names*.

the United States and Great Britain, concerning American and British trade-marks in China ³⁰

It should be observed, however, that none of the various agreements mentioned above solves the basic problems arising out of the fundamental differences in the industrial property rights systems of the leading countries, and especially out of the fact that the American system contains no compulsory working feature in the case of patents and involves the principle of priority of use in the case of trade-marks. As long, therefore, as these differences exist, despite the maintenance of more or less complete reciprocity of national treatment, there are likely to be inequalities of the type mentioned above in the international patent and trade-mark rights of certain nationals. These inequalities may involve deliberate infringement and piracy but not necessarily so. National treatment is practically as far as international agreement can go, and the problem therefore resolves itself into one of reorganization of the domestic system by whatever nation considers the industrial property rights of its nationals to be less than the rights of foreign nationals.

LEASES AND CONCESSIONS

While the problem of the status of foreign enterprise falls logically into a category of questions concerning incorporation, taxation, patent and trade-mark rights, and other largely formal and well-defined and partly legalistic affairs, no complete consideration of such status may be had without mention of a large field of operations which is roughly embraced in the title, Leases and Concessions. That is, over

³⁰ *Treaties*, etc., Vol. I, pp. 800 *et seq.* Cf. also, for brief discussion of the general problem, art. on "International Patent Legislation," by Montgomery, Royal E., in *Journal of Political Economy*, Vol. XXXI, No. 1, February 1923. *Vide* also, Appendix, *infra*.

and above the ordinary status that foreign enterprises have in domestic legal systems, there are a large number of special economic rights which such foreign enterprise obtains in various countries by a variety of special arrangements differing from case to case and involving administrative action as well as legislation. Foreign companies may purchase or lease valuable industrial property to some extent regardless of their technical status, and particularly is it true that in a number of outlying countries where the domestic political economy is not so highly developed nor so definitely organized they frequently obtain special business rights by means of contracts made directly with the domestic governments, these contracts generically being known as concessions. Such concessions extend to an almost infinite variety of business activities. Their most familiar example is probably to be found in the field of mining operations and other types of exploitation of natural resources. But they also exist in the case of operation of, or even exclusive rights of constructing and operating, factories, or building and operating railways, and of marketing given products in specified market areas. A category of such concessions would include mineral concessions, forest concessions, plantation concessions, transportation concessions, communication concessions, banking concessions, manufacturing concessions, and marketing concessions.

A further characteristic of this system is that these special contracts frequently involve many other business arrangements. For example, a common concession type has been that in which foreign capitalists have obtained some such special right in return for the supply of loans to the government making the concession.

Doubtless the most significant aspect of the concession system, however, is its prevalence in the so-called back-

ward countries, that is, in non-industrialized countries where there are large undeveloped resources and large possibilities of profit in the development of resources and of auxiliary industries. Consequently the system has been of the utmost importance in modern times in the extension of the economic enterprise of the powers into the economically less developed countries of the world, and this system of economic extension, for example, the establishment of a network of concessions, especially exclusive or monopolistic ones, has frequently preceded an attempt to set up a sphere of influence, and the latter when successful has at times emerged as a colonial possession of a power. It is true that these concession contracts are not ordinarily participated in directly by the government of the concessionaires, but they are often supported in diplomatic ways and occasionally are especially encouraged by the home government. Indeed in some instances the government of the power is itself actually a participant in one way or another, as illustrated in the case of stock ownership and control by the Japanese Government in the South Manchurian Railway and by Japanese Government recognition of special Japanese rights in the case of the Han-Yeh-Ping iron and steel corporation of China. Other instances, direct or indirect, of home government participation are too numerous to mention at this point, but it is quite clear that the lease and concession system has received at least the tacit endorsement of the governments of the leading powers. On the other hand, so far as the government of the concession country is concerned, there is more direct government involvement. The governments of these less developed countries directly enter into commitment and frequently assume considerable obligations, such as debts, to the private foreign enterprise entering from abroad.

Some efforts have been made in recent years to check the

concession system. On the one hand, the United States Government has made a persistent stand for the "open door" in all regions as opposed to any concessions that were exclusive or monopolistic. On the other hand, some of the concession countries themselves have attempted to check the system, by the encouragement of the development of their resources by native capital or by the actual exclusion of foreign interests from certain fields. The latest example of the latter has been the attempt of Mexico to put into force provisions of the Constitution of 1917 for the exclusion of alien interests from permanent control of mineral lands.³¹ As yet, however, the special system of leases and concessions has not declined and in any full understanding of the real importance of foreign and international enterprise this system must be taken into account, with its ramifications, often involving the participation of the capital of various powers in a given enterprise, spread like a network over the industrial and commercial fabric of many of the economically less developed countries.

ORGANIZATION OF FOREIGN AND INTERNATIONAL ENTERPRISE

However important may be the organization of industrial enterprise in one country for purposes of foreign activity, and consequently its organization when it appears as foreign enterprise in another country, the most striking international aspect of industry is not merely the conducting of foreign production and buying and selling operations by such units but the actual affiliation of the industrial units of the various countries. This process of international integration has progressed so far in modern times as to produce "world

³¹ This, however, was rather an attempt to convert fee simple title to concession title. *Vide* Chapter XIII, *infra*.

combines," some, although not all, of which are in the nature of monopolies, these might, in American usage, be termed world "trusts." As in the case of domestic combination, this international affiliation of industrial units is effected by a great variety of devices, including agreements and pools concerning production, prices, and market areas, control of patents, joint share-holding or ownership by one concern of controlling interest in other concerns, interlocking directorates, and control through loans or through banking connections. Cases of outright merger or amalgamation are probably less frequent than nationally, but these are also found. A further point of interest is one which is often overlooked by legislators and publicists in the domestic field of industrial combination, namely, that frequently a case of a loose-knit organization or especially of an integration of several units in the process of development is more conspicuous than one of an absolutely unified organization already in existence or of the expansion of a single, large unit in a unitary way. Where combination is opposed as threatening to create monopoly or at least restraint of trade, the former is at times spectacularly heralded, while the latter phenomenon may involve a single solidified enterprise quietly working along monopolistic lines. This may be particularly true where a fairly complete natural monopoly exists and especially where it is supported by governmental action. Such monopolies of a world scope, whether of the former or the latter type, are often confined to one country, but there are instances, such as those of potash and sulphur, where they too involve cooperation between the interests of two or more countries.

Some distinction may be drawn between world production combines in material industries, world combines in service rather than goods industries, and world marketing combines. The first two types operate through the various

devices mentioned above, such as production agreements and varying kinds of capital affiliation and control. To these should also be added concessions, often exclusive, obtained from governments of both undeveloped and developed countries. On the other hand the marketing combines work somewhat more by means of special buying and selling contracts, although they also often involve, as in the case of the famous German metal trio of pre-war days, interlacing of production capital.

International extensions and affiliations of industrial interests shift from year to year, and concerning many of them no authentic facts are on record beyond the private files of the concerns themselves. However, some of the leading international combinations which have existed in recent times may be observed.³² A number of others will be noted in a subsequent chapter dealing with the international problem of control of raw materials. Some of these organizations represent simply cases of ownership by a concern of one country of branch factories or mines or other property, such as pipe-lines and refineries in another country — such cases are legion, others offer instances of several affiliations under international private business treaties and leagues, that is, are cases of world combines proper.

PRE-WAR WORLD PRODUCTION TRUSTS

International production combinations³³ cover many manufactured products as well as raw materials. They have

³² *Vide* U. S. Federal Trade Commission, *Report on Cooperation in American Export Trade*, 1916, esp. Part I, pp. 347-369 and other sources of data on combines referred to in previous chapter. *Vide* also Appendix.

³³ It should be recalled that a "trust" is strictly only one special form of business affiliation, but American usage has come to apply the term generically to many forms of combination.

NOTE — It should also be remarked that in the present chapters of this study the term "enterprise" is occasionally used as connoting that economic

existed in the two chief manufacturing industries of the modern industrial structure, iron and steel, and textiles

Iron and Steel. The older iron and steel combinations are perhaps best illustrated in the case of rails. In 1883 German, English, and Belgian interests formed an international rail syndicate which, after breaking down several times, was revived in 1904, with the addition of French producers. In 1905 certain American concerns were reported to have become parties to the agreement, and in 1908 Russian interests joined.

A central bureau was established in London, in addition to local bureaus for national groups. Division of markets included definite allotments and "neutral" areas, with payment of bonus for exceeding allotment. Markets were classified as of three types: (1) protected ones, including domestic markets of each group, (2) favored ones, where preference was accorded to a given group, as to the British in British colonies and protectorates, to the German group in Scandinavia and to the Belgian group in Egypt and Japan, and part of South America, and to the alleged United States group in certain Latin American countries — a kind of Monroe doctrine in the diplomacy of business, (3) neutral markets, free to all. While the World War disturbed this treaty arrangement among business interests, it has been reformed, as will be seen below, with arrangements for allotment of production as well as of markets and with central supervision in Paris by an organization known as the *Comptoir Sirerurgique*

service in production which is supplied by the entrepreneur (e.g. "capital and enterprise" — i.e. enterprise as distinguished from capital, as well as from land and labor), but is usually employed in its broader, general usage (e.g. "foreign enterprise" or "foreign enterprises" — i.e. foreign business undertakings involving capital and management — in a word, foreign business concerns)

Other international agreements and affiliations have covered pig-iron, galvanized steel, pipe, rods, wire nails, enameled ware, and, notably, beams. The steady regrowth of combines in this field is an outstanding post-war phenomenon. For example, an international pipe syndicate comprises French, Belgian, German, and Czechoslovak manufactures, later joined by similar interests in Polish Silesia.³⁴ The international enamel-ware cartel has been reestablished, following a conference of representatives of the German, Austrian, Polish, Hungarian, and Czechoslovak industries, with reports that British manufacturers were expected to join. The agreement covers export trade, for which minima are set; no allotments of export quantities or markets are made, but monthly statements are filed, and if one country or factory is receiving a disproportionate share of business it is expected, under directions from the cartel, to increase its prices or reduce the quantity of its orders.³⁵

Other Metals. There have been many international combinations in the field of non-ferrous metals, including zinc, copper, lead, aluminum, and nickel, but the most typical of these have been primarily marketing combines rather than true producer combines, and they will be noted under that heading.

Textiles. International combination in the field of textiles has included affiliations of European silk and silk product producers. But it has been most significant in the case of a British amalgamation process begun in 1896, covering cotton textile production largely, and centering around the firm of J and P Coats, Ltd.³⁶ Even at that early date the company had sixteen (16) factories, including mills in Can-

³⁴ U S Department of Commerce, *Commerce Reports*, April 12, 1926, p. 90.

³⁵ *Ibid.*, p. 89.

³⁶ U S Federal Trade Commission, *op cit.*, Part I, pp. 251-254.

ada, the United States, and Russia, sixty (60) branch houses, and one hundred and fifty (150) depots. Some twenty odd years later it was estimated that of the total Coats interests' output in the United Kingdom four-fifths was exported and that more than one-half of the Coats profit was made on goods manufactured in foreign mills. This was a case, partly of affiliation, but largely of expansion.

Dyes and Dyestuffs. The group of chemical industries is in several respects strategic, and is also distinguished by a peculiar degree of interrelation among its various branches. The international importance of its organization is best illustrated in the case of the coal-tar industries, the products of which are extremely numerous and varied, extending particularly to artificial dyes and dyestuffs and to many pharmaceutical preparations and to explosives essential in war time. Prior to and even during the World War German interests were dominant in this field.³⁷ These interests had undergone a large degree of combination at home, having evolved largely into five large concerns, and the latter in turn having come to be dominated by two groups, (1) the Badische Anilin-und-Sodafabrik, the Friedrich Bayer interests, and the Aktiengesellschaft für Anilinfabrikation (afga), and (2) the Höchst-Casella group. These interests had branches and affiliations abroad, notably, for example, in Russia, but their domination of the world market was more distinctly one of international control through patents, of which type of control they doubtless furnished the chief illustration. Because of the strategic importance of the dye and dyestuff industry, not only with respect to its normally valuable products, but particularly with regard to its associated output of explosives, during and immediately after the war the other leading powers made very special efforts to break the con-

³⁷ U. S. Federal Trade Commission, *op cit*, Part I, pp. 285-298.

trol These efforts included seizure of German patents, as in the United States, and their sale to domestic enterprise, other types of direct government encouragement, and extreme trade restrictions, which at first took the form of import prohibitions, in order to protect the home market for the domestic industry Such measures were so decisive as to have considerable effect, and German domination of the international dyestuff industry, through control of patents became less than it formerly was More recently, however, the further integration of this and other branches of the chemical industries within Germany, and their reaching outward to form affiliations and interests in other countries even including the "Allied" countries, has been most striking, and will be alluded to below

Tobacco. Prior to 1911 there had developed an affiliation between British and American manufacturers of tobacco products, with a reported marketing division of territory throughout various parts of the world In so far as this combination came within the jurisdiction of the courts of the United States it became the subject of proceedings under the American anti-trust laws, and of a decision of the Supreme Court of the United States of 1911³⁸ Under this decision certain of the defendants, including the American Tobacco Company, and the Imperial Tobacco Company, Ltd, were prohibited from employing common agents in the purchase of leaf tobacco in the United States, and other rulings looked to the dissolution of the alleged monopoly. Contracts of 1902 covering a division of marketing areas were ordered rescinded in certain respects, although each company was required to treat as its own all brands and trademarks thus affected, so that the Imperial Company retained the exclusive right to manufacture and sell in its own terri-

tory the brands of the American Tobacco Company existing in 1911 and vice versa. In 1925 the United States Congress ordered an investigation of charges that these two companies were still the subject of "concentration and interrelation in the ownership, control, direction, financing, and management through legal or equitable ownership of stocks, bonds, or other securities or instrumentalities, or through interlocking directorates or holding companies, or through agreements." ³⁹ The resulting investigation ⁴⁰ led to the findings that there was "no evidence of illegal agreements, combinations, or conspiracies between the American Tobacco Company and the Imperial Tobacco Company with respect to the buying and selling of tobacco and tobacco products. In their purchase of leaf tobacco these companies operate independently, both maintaining extensive buying organizations. In fact the entire operation of the Imperial Tobacco Company [in the United States] is devoted to the purchase of leaf, it not being engaged in this country in the sale of manufactured tobacco and tobacco products. The two companies have no common directors and are entirely separate in matters of control and management. The common stockholders are chiefly those who under the decree of 1911 were permitted to retain such holdings which in the aggregate are less than 5% of the stock issued." In ways such as these are world combines occasionally limited in their operations in a country with highly developed anti-trust laws. Further, many such combines were greatly altered during the World War by the seizure and disposal of alien enemy property, which eliminated certain foreign interests in domestic concerns in such countries.

³⁹ 68th Congress, 2d Session, Senate Resolution No. 329.

⁴⁰ 69th Congress 1st session, Senate Doc. No. 34, *The American Tobacco Co. and the Imperial Tobacco Co.*, 1926.

as the United States, Great Britain, and other countries involved in that war. Ordinarily, however, there is remarkably little interference in the movement of international industrial combination, and such combines are formed and continued to whatever extent they are found feasible and profitable by the business interests concerned.

Glass. Large international glass and bottle combines developed before the war. A plate glass syndicate (*Convention Internationale des Glaceries*) was organized in 1904 and later renewed.⁴¹ It included 25 plate glass works in Belgium, Germany, Austria, France, Holland, and Italy — in fact all plate glass works of Europe except one of an English concern, a plant owned by the latter in France, and factories in Russia. It began with a central committee, a selling committee, and a bureau, but later culminated in a central stock company. In 1907 an international bottle-makers' syndicate was organized, with apportionment of production in Belgium, Germany, England, France, Austria, Holland, Sweden and Norway, and Denmark, with price-fixing arrangements, and with the purpose of common purchase of the Owen patent machine process.

Cement. A somewhat similar combine was formed in the case of cement, involving an affiliation of one Belgian and two German cement syndicates, as well as English, Swedish, Danish, and Norwegian syndicates. It apparently covered division of foreign markets and regulation of prices but not allotments of production or quantity of sales.⁴²

Borax. The early establishment of an international borax combine constitutes a further illustration of the many instances of world combines. The Borax Consolidated, Ltd.,

⁴¹ U S Federal Trade Commission, *op cit*, pp 350-352.

⁴² *Ibid*, pp 307-308

formed in 1899, absorbed properties of 6 concerns with deposits in the United States, South America, and Asia Minor, and factories in the United Kingdom, the United States, and France. It also acquired a controlling interest in other concerns which had deposits in the United States and South America and refineries in the United Kingdom and the United States. The total result of these operations was to set up a practical control of the world market, with dependence upon it of countries having large consumption but no deposits.⁴² Recent reports indicate: (1) that a new process of recovering borax from kernite will revolutionize the industry, this method being much cheaper than recovery from brine or from the mineral deposits around Death Valley, (2) that the United States remains the chief source of world supply; (3) that the predominant producing interests are still British, the American Potash and Chemical Corporation (producing from brine) being a subsidiary of the New Consolidated Gold Fields of South Africa (a London concern), and the Pacific Coast Borax Company (producing from kernite) being a subsidiary of the Borax Consolidated, Ltd., of London.

Many other world production combines or international affiliations of industrial enterprise have developed from time to time, including those in the field of raw materials, as will be observed in paragraphs below and in a subsequent chapter.

PRE-WAR WORLD MARKETING COMBINES

While many of the international industrial combines above noted have had as one of their purposes the control of marketing, there have been certain cases of combinations formed more particularly for the purpose of market control,

⁴² U. S. Federal Trade Commission, *op cit.*, pp. 347-248.

especially on the side of buying rather than selling, although frequently also involving control of sales. The cooperative buying societies of the United Kingdom⁴⁴ have sometimes been cited in this connection. Thus the Cooperative Wholesale Society, Ltd, and the Scottish Cooperative Wholesale Society, Ltd, are very large organizations, involving a considerable accumulation of capital, very extensive centralized purchases of almost innumerable kinds of commodities in markets throughout the world, ownership of warehouses, and even of factories, tea and coconut estates, and steamships, and the relations between these two organizations are very close. However, membership in them is apparently limited to registered retail cooperative societies and employees. In any event they are to be looked upon more as combinations formed on the side of the ultimate consumer rather than as combinations of industrial producers for the control of sales or purchases for industrial purposes, and clearly do not fall within the category of the latter, even though they are highly significant, and possibly represent the genesis of a counter-movement in international industrial and commercial control. Should combination of ultimate consumer purchasing progress largely and meet integration of production proceeding from the other direction, the concentration of the world's industry and commerce would approach completion to an extraordinary degree.

The London Metal Market and The German Metal Trio. International industrial combination for the purpose of concentrating the purchase of industrial raw materials was developed most highly in the field of the non-ferrous metals. It physically centered largely in London, where the Metal Exchange and the process of silver price-fixing progressed so far, prior to the World War, as to make that city

⁴⁴ U S Federal Trade Commission, *op cit*, pp 355-357.

in a sense the metal market of the world. However, the real control of the international marketing of many of the chief metals was German, through the activities of a group sometimes referred to as the German Metal Trio. With this group as the central one, many of the chief branches of the non-ferrous metal trade of the world were largely in the hands of a few companies and their subsidiaries and related concerns, in the metal-producing and metal-consuming countries, with assistance and participation of banks in the various countries. This in turn rendered a number of important manufacturing industries, notably the electrical and chemical industries, of many of the leading countries, dependent upon this group of combines.

The principal constituents of the trio may be noted ⁴⁵. The central interests of this group of groups were Aaron Hirsch & Sohn of Halberstadt, Beer, Sondheimer & Company of Frankfurt, A. M., and the Merton interests. The central organizations were the Metallgesellschaft and the Metallbank and Metallurgische Gesellschaft. Beer, Sondheimer & Company and Aaron Hirsch & Sohn were distinct from the latter, but affiliated with them in many indirect ways; the Merton group, on the other hand, were directly connected with those organizations. These were the core of the structure. Through holding companies, interlocking directorates, joint share-holdings, banking connections, and affiliations with cartels and syndicates, some of the latter themselves international, the ramifications involved well over 100 concerns, with total capital of several hundred million marks, and extended to such raw materials as copper, lead, zinc, silver, gold, and aluminum, and to such manufac-

⁴⁵ *Ibid.*, pp. 357-369. *Reports of the U. S. Alien Property Custodian*, 1919 and various years. Spurr, J. E. (ed.), *Political and Commercial Geology*, pp. 232-235, 280, 283-286, 311-312.

turing industries as those producing metal products, dyes and dyestuffs, other chemicals, electrical goods, and munitions. There were even connections with the steel industry and the potash syndicate. The international operations were particularly important in the case of metals, especially copper, lead, zinc, and aluminum. For example, the Merton interests had connections, through the Merton Metallurgical Company, with a number of important English metal concerns, some of which it partly controlled. The Metallgesellschaft through the Deutsche Gold und Silber Scheideanstalt, had affiliations with several chemical companies of the United States. The Hirsch group, through L. Vogelstein and Company, and in turn through the American Zinc, Lead, and Smelting Company had interests in a number of American ore and metal enterprises. The American Metal Company, Ltd., affiliated with the Metallgesellschaft and the Metallbank und Metallurgische Gesellschaft, had interests in a number of other metal companies in the United States. Beer, Sondheimer & Company also had similar American affiliations in at least one case. While the affiliations in England and the United States were perhaps most significant because of the large amounts of copper and other ores mined and smelted in the latter country and because of the physical centering of the world metal market in London, other ramifications were very important, and extended to British possessions, such as Australia, and to Belgium, France, Spain, Latin America, and to nearly all other countries where the chief non-ferrous metals were either produced or consumed. The whole system was most powerful in the field of the principal non-ferrous metals of which Germany and certain other industrialized countries of western Europe are mainly large consumers and small producers. This fact accounted for one of its outstanding characteristics, that is, while it included

production control in many instances, it was primarily a buying combine, controlling world prices and the sales of many metal outputs throughout various countries. On the other hand, its production controls in the case of raw materials and its affiliations with important manufacturing industries, made it, on the whole, one of the largest systems of international affiliation of industrial enterprise that had yet come into existence.

The exact status of the "German metal triumverate" in recent years is not a matter of record. During the World War these German interests were expelled from the concerns of the United States and other allied and associated countries. For example, German holdings in American concerns through L. Vogelstein Company were taken over by the Alien Property Custodian, and similar steps were taken in British regions, as in Australia. Moreover, the post-war nationalistic movement led in certain instances to special government encouragement of domestic control, in France the government recognized a number of consortiums that were formed, one in each industry, and under government auspices these were united in the Société Minerais et Métaux, in order to group French metal interests in France and elsewhere into an association for the sale and purchase of metallurgical products. On the other hand, there is evidence that the former international grouping of metal interests is by no means destroyed and that it tends to rebuild its structure in certain respects, one illustration of this is the unconfirmed report that certain of the German holdings in the United States, when sold by the Alien Property Custodian, passed into the hands of a Swiss Company which was a subsidiary of one of the German group. The former structure may not reappear in its old form, partly because of the alterations in the German industrial system itself. But the changing details of

such international combines from year to year are of less importance than the fact that under normal conditions, and even to some extent under war-time and post-war conditions, systems of this sort exist. They disclose the remarkable degree of international interrelation in many important branches of industry, and, as will be seen, the movement as a whole is a growing one, breaking down erstwhile political enmities, and constructing an increasingly coordinated world industrial structure.

WORLD COMBINES IN SERVICE INDUSTRIES

International affiliation and control of enterprise is not confined to mining and manufacturing. It extends to some extent to agriculture (plantations), and to a considerable extent to what may be termed service producing industries as distinguished from goods producing industries—to banks, railways, shipping lines, and cable and radio systems. One of the most recent and significant developments may be mentioned as illustrative, namely that of a radio combine.

International Communications While the world-cable situation is dominated by British interests, the leading radio affiliation is to a considerable extent American, although with arrangements with British, French, and German interests.⁴⁶ In 1919 there was organized in the United States the Radio Corporation of America.⁴⁷ This was brought about by the General Electric Company, and the principal portions of stock approximately three years later were held by (1) the General Electric Company, (2) the Westinghouse Electric and Manufacturing Company, (3) the United

⁴⁶ There is also competition in some areas with these and Danish and Japanese interests.

⁴⁷ U S Federal Trade Commission, *Report on the Radio Industry*, in response to House Resolution 548, 67th Congress, 4th session, printed 1924.

Fruit Company, and (4) former stockholders of the American Marconi Company, which some years before had been organized with about 25% of its capitalization owned by the Marconi Wireless Telegraph Company, Ltd, (British) The Radio Corporation issued a block of stock to the Marconi Wireless Telegraph Company of America in return for all of its physical properties, patents, licenses, and good will. It also formed agreements with various companies owning practically all important patents covering radio devices, and is the selling company for these devices. The corporation further proceeded to secure a virtual monopoly of the important commercial wireless communication stations in the United States except those which are government owned. But most interesting in this connection, it has entered into traffic agreements with various foreign radio companies as well as with foreign governments concerning traffic with the United States. Such agreements include those with the British Marconi Company for the British possessions, and with the Governments of Norway, Germany, France, Poland, Sweden, and the Netherlands, and, through its purchase of the American Marconi Company, the Government of Japan. A subsidiary has obtained a special concession in China. And in 1921 and subsequently it entered into agreements with the British company and with a French and a German concern covering radio traffic from South and Central American companies, forming a so-called consortium.

If later as well as earlier, unofficial reports be added to governmentally authenticated records, the (national and) international affiliation phase of world communications may be summarized as follows: (A) *British interests and American interests* are predominant, and to some extent are competing, in *world communications control*, in so far as such

communications are international in physical fact or by way of foreign extension of enterprise. However, though they compete, they also interlace and cooperate, as seen above.

(B) As indicated, *British interests* have the lead in *cable communication*. There was recently reported a British merger of the Eastern Telegraph Company and the British Marconi Company, each already having various branches and affiliations throughout the world and notably in the Far East, this super-combine to control more than half (141,256) of the world's total (260,000) cable mileage, and also through the Marconi, considerable portions of world radio systems.

(C) *American interests* predominate in the international phases of non-cable world communications, *telegraph, telephone, and wireless*, with also important cable control and affiliation. This centers considerably around the Radio Corporation of America (R C A), discussed above, the American Telephone and Telegraph Company (A T & T), the International Telephone and Telegraph Company (I T & T), and the Postal Telegraph Company.

(1) The R C A has the affiliations and international agreements noted above. Recent reports indicate that the Victor Talking Machine Company has special arrangements with the R C A, the General Electric Company, the Westinghouse Electric Company, the Western Electric Company, and the A T & T for interchange of technological data (not necessarily financial affiliation), and that the R C A and the Victor may (not merge, but) "form a closer technical and commercial alliance than they have had."

(2) The A T & T is reported to have affiliations with the (American) Western Union Telegraph Company, which in turn is reported to have had close affiliation with British cable interests.

(3) The I T & T, is reported to be associated with the A T & T. The I T & T, itself essentially a hold-

ing company, owns or controls, through domestic and foreign subsidiaries, extensive telegraph and telephone systems in foreign countries, and also cables between various countries. It thus, for example, controls the telephone system of Spain, has a contract for modernizing the telephone system of Paris (which system it tried to buy), and is negotiating for new rights in Brazil and the Argentine. The Western Electric Company supplies equipment to the A T & T and the I T & T. (4) The Postal Telegraph Company, "the second largest [?] American communications company," owns no telephones but has important international cable affiliations. (5) The I T. & T., according to recent reports, has bought control of the Postal Telegraph, and therefore of its affiliated companies, creating thereby a \$300,000,000 combine. This will link together (a) "telegraph and telephone systems throughout the United States, Canada, Mexico, Cuba, Porto Rico, Central America, both coasts of South America, and Spain", (b) "cable systems spread from Germany and France, through the United States to Honolulu, Midway Islands, Guam, Manila, to Shanghai, and (All America Cables) from U S ports to all important South American ports", and (c) a projected radio-and-telephone service from the United States Pacific Coast to Hawaii and the Philippines, and a radio service from Sayville, N. Y., to either London or Paris.

These remarkable inter-ramifications suggest, perhaps, a tendency toward the unification of the various interests of two leading countries, respectively, in competition for control of world communications, with many international affiliations and arrangements. But even between the two great national groups about which the structures center, are thus disclosed interesting instances of inter-affiliation on a world scale.

POST-WAR DEVELOPMENT OF WORLD PRODUCTION
TRUSTS

The exact number and status of international industrial affiliations at any given time is difficult if not impossible to determine, but taking all known facts into account it is safe to say that the World War did not end the movement (in some ways it accelerated it), that some of the older cases referred to above still exist, and that many new cases have developed since the war. Indeed, the movement is apparently a growing one.

The European Steel Entente. The most striking post-war development along the lines of "world trusts" doubtless has been the formation of the European Steel Entente, in 1926. In the summer of that year it was rumored that negotiations for this purpose had been carried on for two years,⁴⁸ and had culminated in the formation of such an organization, and in the fall the facts became more fully known.⁴⁹ The signing of the pact occurred at Brussels on September 30, 1926, and involved participation of the steel manufacturers of Germany, France (it was sometimes called the Franco-German steel entente, and apparently was not without connection with current Franco-German political rapprochements, such as that of "Thoiry"), Luxemburg, and the Saar. Czechoslovakia, Hungary, and Austria, and Yugoslavia joined later. The agreement was to run until 1931,

⁴⁸ *New York Herald*, Paris Edition, August 14, 1926.

⁴⁹ U S Department of Commerce, *Press Release* I and S 594, October 28, 1926, on "The Continental Steel Entente" (by Trade Commissioner D J Reagan, Paris), *U S Daily*, December 17, 1926 ("Three More Nations Enter Steel Entente"), and December 20, 1926 ("British Steel Plants Discuss Combination"), *Commercial Intelligence Journal* (Canada), December 4, 1926 ("European Steel Cartel"), *vide* also, for comment from American viewpoint, *Foreign Affairs*, Vol V, No 2, January 1927 (art by Tower, Walter S, former American Commercial Attaché in London, on "The New Steel Cartel") *Vide* also Appendix, *infra*.

but it was provided that any member could withdraw upon three months' notice

The primary purpose was production control and, at least ostensibly, not market division. A contingent production was to be fixed for each country by the directing committee every three months in accordance with a predetermined coefficient adopted for each national group of interests, with a penalty for exceeding this allotment and a bonus for production of less than the quota, the penalty and bonus to be per ton. The total annual output of the five original members was fixed at 27,587,000 metric tons, with the possibility of increasing this to 30,560,000 as an ultimate maximum tonnage. The allotments for the first quarter were fixed as follows: Germany 43.50%, France 31.19%, Belgium 11.56%, Luxembourg 8.55%, Saar 5.20%. All of these represented an increase over actual production in 1924. Each country was to be at liberty to produce more or less than its quota, except for the penalties and bonuses mentioned, which were to be \$4 per ton for overproduction, to be paid into a common fund, and \$2 per ton reimbursement for underproduction, such bonus to apply, however, only to the extent of ten per cent reduction below the quota. In addition, a contribution was to be made to the common fund of \$1 per ton for every ton produced, whether above or below the quota.

The problem of prices presented some difficulty. One of the most immediate phases of the excessive competition which, by reaction, caused the formation of the cartel, had been declining prices. There had been much price-cutting in the European market for several years, and this had been enhanced by depreciation of the franc in the case of French exports, and by actual dumping in the case of German exports. The Germans contended that the new arrangement could be successful only if export quotations could be stabil-

ized at higher levels, so that the business would be profitable to countries which had returned to a gold basis as well as to those with depreciated currencies. Nevertheless, apparently no direct price-fixing provision was included in the formal agreement, although it was, of course, hoped that production control would have the desired effect, and that the dollar per ton payment would constitute, especially, a kind of insurance against extensive price-cutting. It was also intimated at the time that gentlemen's agreements might be made secretly among the members. Moreover, an anti-dumping provision was included, whereby each country agreed not to sell to any of the other contracting countries at prices below its domestic quotations.

In a sense, Germany made the greatest sacrifice, because her quota, it was pointed out, represented only 75% of her production capacity, whereas contingents for other members ranged from 90% to nearly 100% of their respective, possible outputs. However, Germany obtained an advantage for her interior market in clauses which restrained France, the Saar, and Luxemburg from selling a quantity of pig-iron and metallurgical products in Germany above a fixed amount which was somewhat below the amount of average German imports in immediately preceding years. It was hoped that this might strengthen the German industry for its export competition.

With the exceptions just noted, the agreement, then, involved no price-fixing, nor did it involve division of world markets, although it was intimated that both of these might be effected by means of gentlemen's agreements.

The two most important steel-industry countries of the world not included in the agreement were Great Britain and the United States. With regard to the former, it was rumored that conversations were held with some such object

in view, but Britain did not join. It was indicated, however, that the British steel industry would be affected and might be led to a greater degree of national unification in order to resist the entente. Italy apparently opposed the agreement and did not participate. On the other hand, the reaction of the American steel industry was seemingly one of passive interest, with no fear of injury, rather did there seem to be a feeling that the arrangement would not create greater competition against it and that, if anything, the plan would be welcome, because of its stabilizing effects upon the world market.

The effecting of the entente was an excellent illustration of the informal linking of business and politics in international affairs which takes place to an increasing extent. Premiers of governments were reported to be cognizant of the plan, the conclusion of the entente was hailed as a Franco-German orientation, and the president of the cartel stated "The Steel Cartel has been organized on the assumption that there will follow a treaty of commerce between France and Germany. It is hoped that the signing of the agreement will facilitate the negotiations now going on between the two countries to arrive at a commercial entente" — a logical thing in view of France's need of German coal and Germany's need of French iron.

Administrative details were not fully provided for in the agreement. It was expected that the control might be entrusted to Swiss experts or a Swiss business combine, as neutral intermediary and that financial administration might center in Holland and also that sub-cartels might be formed within the cartel.

Subsequently, the plan did not work out exactly as expected, and it was thought it might not become a permanent institution. However, the organization remained in exist-

ence, and, as noted above, expanded to include additional countries. In early 1928 the Entente arranged to maintain existing quotas, but reduced the penalties.⁵⁰

The E. R. M. A. and Other Iron and Steel. The old steel rail combine, later known as the "Erma" (European Rail Manufacturers' Association), was re-formed after the World War, in addition to other combines in various branches of the iron and steel industry.

The whole iron and steel combination movement in a sense centers in Germany, where the degree of domestic cartelization forms a convenient basis for such international organizations, and where "the . . . iron and steel industry is a leader in . . . syndication—four great combinations, one of pig-iron producers and three of steel makers virtually controlling the entire industry." The following statement, in early 1927, gives some indication of the extent of these organizations: "Germany has now joined the Erma, of which Great Britain, France, Belgium, and Luxemburg are also members. Negotiations for the consummation of an agreement between European wire producers, to which Germany is a party, are still under way. German tube manufacturers are also members of an international tube syndicate which includes groups in Czechoslovakia, Poland, France, Belgium, and Hungary."⁵¹

Other World Combines. The post-war industrial integration process, centering in continental Europe and particularly in Germany, but including British and in some cases American interests, and taking both national and inter-

⁵⁰ U S Department of Commerce, *Commerce Reports*, May 16, 1927 (p. 430), August 15, 1927 (p. 423), and October 10, 1927 (p. 85). *Vide* also Appendix, *infra*.

⁵¹ U S Department of Commerce, *Commerce Reports*, Jan. 3, 1927 ("An Analysis of the German Iron and Steel Industry") *Vide* also *infra*.

national form, is very extensive and is constantly changing, but a representative idea of its nature and extent may be obtained from the above and other selected examples.

The German chemical industry is the core of many of these organizations. It is, itself, as mentioned above, a most remarkable group of combinations, covering dyes and dye-stuffs, potash, fixed nitrogen, photochemicals, pharmaceuticals, and artificial silk, among other commodities, with many different subsidiary production (as well as purely marketing) syndicates of companies, to take but two examples, the Nitrogen Syndicate, formed in 1919, was later reported to control 95% of German fixed nitrogen production, while a "supertrust" was formed to weld together the dye and dye-stuff syndicates in 1925 (Interessengemeinschaft Teerfarben Industrie, A G — Community of Interests of the Tar Colors Industry, Inc.) There are many international ramifications of these chemical industry syndicates,⁵² including an important new Franco-German Dye Trust. (*Vide* Appendix).

The Franco-German Potash Pact, signed in 1925 (discussed in Chapter XII and the Appendix), and the Italo-American Sulphur Agreement (noted in Chapter XII), are among the important post-war cases of world combines.

Further examples of the movement are found in the Swedish-American match trust, which has also acquired control of the Norwegian match industry,⁵³ the 1927 European aluminum cartel to control approximately 47% of the production,⁵⁴ and a new super-phosphate combine⁵⁵ including Germany, Belgium, Czechoslovakia, Denmark, Finland, France,

⁵² U. S. Department of Commerce, *Commerce Reports*, January 11, 1926 ("Developments in the German Chemical Industry During 1925") by Trade Commissioner W. T. Daugherty, Berlin. *Vide* also Appendix, *infra*.

⁵³ *Scandinavian Shipping Gazette*, November 12, 1926, p. 7.

⁵⁴ *U. S. Daily*, January 12, 1927.

⁵⁵ *Ibid.*, January 22, 1927.

the Netherlands, Norway, Poland, Sweden, French North Africa, Union of South Africa, and England, and these are typical of the increasing number of such cases of international industrial affiliations

The Trend Certain summary generalizations may be made concerning this post-war movement⁵⁶ in international cartelization (1) The movement is of course, not new, but is a continuation of the pre-war trend, indicated above (2) While the World War broke down some of these world trusts, some of them survived or were later renewed. (3) Both the number and importance of such international combinations not only have not decreased, but apparently have increased, especially since about 1924 or 1925 (4) Many new and highly important ones recently have been formed. (5) It seems probable that the movement will continue to increase (6) A considerable degree of domestic cartelization is obviously necessary as a basis of such organization, and this is particularly marked in Germany, but is also apparent in all the other leading industrialized countries It has been asserted that in a given case a domestic control of approximately 60% is first necessary, although this is only an approximation It was recently estimated that there were 2500 industrial cartels and 500 trade cartels, a total of 3000 cartels, in Germany, as against 600 before the war. (7) The movement naturally occurs largely in western Europe, which is the area of the world's most concentrated industrialization (8) Great Britain is somewhat less involved, though included in many important cases. (9) The United States is still less involved, yet her interests also are at times important participants. (10) The war dis-

⁵⁶ Cf U S Department of Commerce, *Commerce Reports*, May 24, 1926 ("International Cartels in Europe," by Eldridge, R), December 27, 1926 ("International Industrial Combinations," by Domeratzky, L). N. B. For further data and references, *vide* Appendix, *infra*

rupted the affiliations between countries which became military enemies, but in the post-war movement, France and Germany have oriented strongly toward each other (11) Meanwhile, the War had stimulated the survival of some of the national units; in Germany there was an increase of compulsory syndication⁵⁷ (12) The greatest impetus to the increased post-war growth was given by (a) the increased severity of international industrial competition, with lowered buying power, and (b) the heightened trade barriers erected among the European nations as well as subsidies granted especially during the first six or seven post-war years⁵⁸ (13) The growth was, therefore, a natural reaction against dumping and other cut-throat competition brought on by the conditions mentioned as well as by currency fluctuations which gave temporary advantage to countries of depreciation (14) While the movement may possess dangers of international restraint of trade, it offers the very desirable advantage of stabilization of industrial conditions, especially in Europe (15) While the combinations involve some conflict between basic-material industries and finishing industries, in many cases they have apparently benefited all industries concerned. (16) This is particularly true because the post-war combines have tended to some extent to follow somewhat more vertical lines, whereas probably most of the pre-war cases were horizontal ones. (17) The essential methods are (a) control of output, (b) direct control of prices, and (c) division of markets. (18) However, the post-war trend apparently involves no more direct price control than before, and probably less, and the same is probably

⁵⁷ During the war this was for the purpose of war-control, immediately after the war it was partly for purposes of socialization

⁵⁸ The inflation period immediately after the war, especially in Germany, produced many temporary combines which later collapsed, but these were succeeded by more permanent ones

true regarding market division. (19) The concentration on production control, therefore, does not necessarily, or directly, involve an attempt to "gouge" consumers, although undoubtedly price control is frequently the indirect, if not direct, purpose (20) In some ways the movement is definitely constructive, especially in that it shows some tendency toward increasing cooperation in technical processes, as in exchange of methods, whereby generally increased industrial efficiency may result (21) Some of these international industrial affiliations have been very closely connected with attempts at political rapprochements among European nations (22) For this and other reasons, they are sometimes viewed in the United States as a possible menace as leading toward a "United States of Europe" which might be a powerful competitor of America, but such a fear seems far-fetched and doubtless the results of the movement have been, in the main, beneficial in the economic restoration of Europe, and therefore of indirect benefit to the United States as well as to other leading nations

On the political side, therefore, these affiliations have not been without value, as helping toward international accord where political measures have failed On the economic side while they may involve dangers of monopoly and restraint of trade, they constitute a not unnatural reaction against disorganized conditions and offer much in the way of increased stability in international industrial, and consequently commercial, relations

THE EXTENT AND SIGNIFICANCE OF INTERNATIONAL ENTERPRISE

The full extent of international affiliation of enterprise, privately or with government encouragement, or with occasional government participation, is impossible to measure One

point of caution is to be observed in surveying it. The great international fluidity of capital should not be taken as an index to the process, for foreign investments are frequently made, as in the case of so many of the British investments which existed in the United States prior to the World War, purely for investment purposes and with no semblance of foreign management or control. And when control of actual operations occurs it is not necessarily for any direct advantage to the investing country other than the addition of profits to interest. But instances like that of the development of Argentine railways by British capital, and of other service as well as material producing industries in Latin America and Asia by the capital, and frequently management, of Great Britain, France, Germany, Belgium, and the United States, are important and constitute a network of international enterprise throughout large areas of the world. Perhaps most significant is the fact that these interests of different nationality are not uncommonly joint participants in a given undertaking, as in the case of the Kailan Mining Administration and other enterprises in China. In other cases the foreign enterprise may be confined to one nationality and may be associated with or instrumental in political control or influence, as is alleged to be true of the South Manchurian Railway, a Japanese company the stock of which is controlled by the Japanese Government.

A final and most important aspect of the formation of foreign and international enterprise, particularly in material production, needs to be emphasized. This is its direct and indirect effect upon every phase of international economic processes, and notably upon trade. These processes are inseparable. The German metal buying combine grew up primarily to gain control of trade in important non-ferrous metals. British management of manufacturing and trans-

portation enterprises in South America and the Far East has meant both British sales of supplies, such as rails and locomotives, and British receipts of raw materials. Long-staple cotton grown in Egypt under British auspices has made tonnage for British merchant vessels. In the financing of such enterprises there is the participation of the headquarters country, — thus creating investments and banking business for it. All these have occurred directly, as well as indirectly through their effect upon the trade balance. In a word, what may be called international industry influences, and is influenced mediately and immediately by, international trade, transportation, and finance, and has formed, therefore, an interrelated part of the entire complex process of international economic intercourse, and it is only through a realization of the complementary nature of these international businesses that the existing degree of international economic solidarity may be comprehended. Yet the trading and shipping and banking processes are more superficially apparent, and it is of peculiar importance to posit their analysis upon some notion of the less generally known world structure of international industrial enterprise.

THE QUESTION OF INTERNATIONAL REGULATION OF INDUSTRY

The increasing development of industrial and other combines of an international order, as well as the continued growth of world-trade, suggests the question whether a concerted attempt should be made by the governments of the world to establish some form of international regulation of business.

It has been proposed that this might take the form of the domestic regulation system existing in the United States, under the Sherman Anti-Trust Act, the Clayton Act, and the

Federal Trade Commission Act.⁵⁹ Presumably this would involve two main types of control, (a) that of "trusts," i.e., of monopolistic combines restraining trade, and (b) that of "unfair trade practices."⁶⁰

Concerning such a proposal little can be said except in a general way. As in the case of the similar domestic problem, arguments may be made both for and against combination and for and against its regulation. On the one hand, there is of course the danger of excessive market manipulation by large groups which are unusually powerful by reason of their organization or, more particularly, their monopolistic position. In a sense this danger increases when the groups come to be of world magnitude. On the other hand, it is doubtless well recognized that large business units afford benefit, not only to themselves but generally, by reason of their frequently greater efficiency and their stabilizing influence. A smoother flow of the business curve should be a most important objective in national or international economic policy. Where the combines have come into existence

⁵⁹ "At the very moment when time and space are contracting the ideas of the business men of the world are expanding. The arena of business is no longer the nation, it is the universe. In the past we saw titanic groups struggle for the mastery of an industry within a nation's borders. We turn the page, and behold the business has raised its eyes from a nation's shores and is searching the uttermost parts of the world for fields to conquer. Since we are dealing with the dreams of the world's producers let us say a word about the nightmare of the world's consumers. . . ."—Thompson, Huston (Member of U. S. Federal Trade Commission), quoted in *The Blue Diamond*, October 25, 1919.

⁶⁰ "1. The formation of an international trade commission which would police or umpire all trading between nations. 2. All complaints to go through this trade commission, the cause to be tried before representatives of the international body not belonging to either of the nations whose citizens are litigating. 3. Unfair practices to be found in unfair practices condemned by the common law in England, the laws of all other nations, both ancient and modern, the rulings of respective trade commissions and the pronouncements of political economists. 4. After investigation and hearing the international commission to publish its findings and, either dismiss the complaint or render its verdict if charges are proven."—*Idem*.

it usually has been in natural reaction against conditions of disastrous competition.' That these points are applicable internationally as well as nationally may be judged from the analysis, in the pages above, of the post-war world combine movement. If the basic doctrine in the American politico-economic system is posited as sound, namely that the national process of competition is the best business regulator, but that to some extent government regulation is necessary in order to insure an absence of monopoly and of unfair practice, so that competition will be preserved, then this concept might logically be carried into the international field, if such were practicable.⁶¹ This assumes that the fallacy is not employed, that all big business is, per se, economically evil, such a notion is as incorrect as the attempt arbitrarily to divide all economic units (organizations or individuals) into producers and consumers, for all units are, in one way or another both producers and consumers. Doubtless some of the international business organizations do tend to restrain trade. But the very fact of their existence does not, of itself,

⁶¹ The question of international cartels was considered at the International Economic Conference, Geneva, 1927. *Vide Resolutions of the Conference IV International Industrial Agreements* (U. S. Department of State, *Report of the Chairman of the American Delegation*, etc., Annex II, pp. 17-18). The Conference considered both the advantages and disadvantages of these affiliations. However, the American Delegation stated: "We recognize that there are certain physical and geographical conditions in particular situations that might make it desirable and economical for some form of international industrial agreements to be made, but we are apprehensive of the dangers of restricted output and the tendency to monopolistic exploitation. . . . our Delegation felt that we could not by our actions approve international Cartels and we took a definite position against international Cartels with Governmental participation." (*Rep. of the Chairman*, p. 5).

Cf. also, League of Nations *International Economic Conference, Geneva, May 4, 1927, Documentation, Report of the Trade Barriers Committee of the International Chamber of Commerce, Geneva, 1926*, and Preparatory Committee for the International Economic Conference (*Memorandum by Professor Wiedenfeld*), *Cartels and Combines*.

menace economic processes or political relations, and this is probably even more true in the international than in the national cases. While in a sense these affiliations operate in a kind of political no-man's land, they doubtless do more to bring about a unified world structure than to prevent it. Finally, there is the serious question whether any concerted international regulation is feasible at the present time, and whether if attempted it could be made effective. If international attempts to prevent war have failed of enforcement, such plans might even more easily fail, except of course that they are economic and economic questions lend themselves to more dispassionate international treatment. If the world continues to grow in economic unity, joint plans of this sort may ultimately become possible. Meanwhile, though international discussions of the problem may prove helpful, the most feasible as well as the most effective treatment lies in the actions and reactions of the economic processes themselves, and it is these processes which, of their very nature, tend constantly to widen national economy into a more complete and better coordinated world economy.⁶²

⁶² For further data and references regarding the status of foreign and international enterprise, including the questions of double taxation, and of patent and trade-mark relations, and concerning recent developments with respect to world cartels and combines and their consideration by international conferences, *vide* Appendix, present volume, *infra*

CHAPTER X

FOREIGN ECONOMIC INTERESTS IN SPECIAL REGIONS

THE REGIME OF THE POWERS AND SYSTEMS OF PENETRATION

THE POSITION OF FOREIGN ENTERPRISE IN SPECIAL AREAS AFRICA, LATIN AMERICA, AND ASIA

WHAT HAS been said above accounts, in general, for the position of foreign and international enterprise in the leading industrial, and a good many other, countries. But with the chief industrial enterprise of the present era centering so largely in a limited number of nations ordinarily counted among the industrial powers, such as those of western Europe and northern America, and tending in its activities to extend outward from these centers not only into the home territories of other industrial powers but also and especially into the territorially vast areas of the world which are economically less developed particularly for raw material exploitation rather than for manufacturing, the international position of enterprise is not completely pictured without some reference to special conditions existing in the latter areas. In a previous chapter the economic aspects of the colonial system have been noted, this system has led to a fairly general partitioning of Africa and has

extended into large parts of Asia and Australasia, and in Latin America has been superseded by the creation of a series of independent states in which, however, the general prevalence of foreign leases and concessions within the limits of the Monroe Doctrine covers a considerable continuation of economic development through the instrumentality of the enterprise of the countries of the industrial powers •

Midway, however, between the colonial system on the one hand, and on the other hand the existence of countries which are politically independent but in which foreign enterprise is peculiarly active by the actual or nominal sufferance of native political authority, there have stood certain unique and fairly definite systems which have been imposed by foreign powers proceeding more or less in concert and under which foreign enterprise is permitted and guaranteed special access, including special privileges and immunities. In short a given foreign enterprise from a leading industrial country may, in general, enter another similar country under the latter's general laws, it may enter a colony or other territorial possession under conditions largely determined by the colonial power, it may enter, say, a country of South America under that country's general laws, but also particularly subject to whatever may be the prevailing policy there with regard to foreign leases and concessions (a contractual matter); again, it has been true in recent times that it may enter certain parts of the Near East or the Far East under a special system of foreign rights and interests created by largely common action of foreign powers. In recent years the revival and growth of nationalism in almost all parts of the world has not only shown signs of moderating the rigidity of the colonial system, at least to the extent of inducing an increase of local autonomy, but has threatened

to destroy or largely reduce the special systems here referred to, and the outcome is difficult to predict in any detail. But these systems have had a significant place in world economy in the past half-century, and even if they should give way before an increased political localism, they, like the colonial system, and the system of leases and concessions in entirely autonomous countries, are to a considerable extent and fundamentally the product, not of military or dynastic ambitions, but of an expanding industrialism and this expansion is likely to continue in one form or another, whether with or without limitation of native political sovereignty.

The special systems particularly referred to here are chiefly found in the cases of Turkey and China and these cases may be outlined, including certain more purely political features which are a part of them for the systems are politico-economic.

FOREIGN ECONOMIC RIGHTS AND INTERESTS IN THE NEAR EAST TURKEY

THE CAPITULATIONS AND THE OTTOMAN PUBLIC DEBT

In modern times, along with the progressive reduction by the western powers of the territory and influence of Turkey, the economic development of that country, in the way of mines, railways, irrigation works and similar projects has come to be mainly one of foreign capital and management. Such foreign development has involved a certain rivalry among the powers, as in competition for old concessions, and as in the pre-war German scheme for a "Berlin-to-Bagdad railway" and general policy expressed in the phrase "Drang nach Osten." However, there was enough community of action, or at least generalization of privileges, to produce

before the World War a system of "Capitulations" and of foreign administration of the "Ottoman Public Debt" ¹

The so-called capitulations, in brief, gave to nationals of the great powers a special status in Turkey, one more favorable in many respects than that of natives, involving extraterritoriality, immunity from search, the right of securing passports from their own respective consuls, and exemption from a number of important taxes

The arrangements concerning the public debt were especially significant. This debt was relatively large (originally over \$715,000,000), and the chief shares were French, 60%, German, 20%, and British, 15%. It was administered by a Council of Administration of the Ottoman Public Debt, consisting of one representative each for France, Germany, Great Britain, Holland, Austria-Hungary, Italy, and Turkey, and one for the Imperial Ottoman Bank; the presidency of the Council alternated each year between a French and a British national. This Council exercised a central and extensive control of the economic affairs of the country. It administered the service of old and new debts, appropriated funds from government receipts for payments of principal and interest in the debt service, controlled many important national revenues, had to do with certain taxes in given districts, and had charge of a large staff of several thousand trained employees. It even had a certain indirect jurisdiction over the industrial system, the scope and efficiency of

¹ For a general discussion of the Turkish problem and the position of Turkey, see Toynebee, Arnold, *The Western Question in Greece and Turkey, a study in the contact of civilizations*, London, 1922; Mears, E. G., *Modern Turkey*, N. Y., 1924. For a brief statement of the post-war developments, see Bowman, Isaiah, *The New World*, new edition.

For a collection of facts concerning post-war industrial and commercial conditions, including leading foreign concessions and financial interests, see U. S. Department of Commerce, *Turkey, A Commercial and Industrial Handbook*, by Randall, G. Bie, T. P. Series No. 28, 1926.

which it endeavored to enlarge by the introduction of new industrial methods and new industries

The total result of these arrangements, together with the extensive existence of foreign concessions for given business projects, was a limited foreign political, and a major foreign economic, control over the entire country, with a very special situation, in both technical status and practical position, for foreign enterprise.

THE EFFECTS OF THE WORLD WAR

The general consequence of the World War was, strangely enough, a decline in this foreign control. Turkey was aligned with the Central Powers in that war, and as a defeated nation theoretically became subject to the terms of the victors. She was, to be sure, reduced territorially to the extent of near dismemberment, but due to her weakened condition, to practical difficulties in the enforcement of peace terms, and doubtless also to a certain rivalry of the Western European powers, what was left of the nation in some respects increased its economic independence.

When Turkey declared war in 1914 she also declared an abolition of the capitulations, which abolition, of course, the western powers refused to recognize. During the War Turkey joined the Central Powers and was supported by them and was opposed by the Allied Powers.² The latter powers were reported to have concluded, during the war, various agreements among themselves for the practical partitioning of Turkey, including the delivery of Constantinople and the Straits to Russia, the marking out of French and Italian spheres of interest in Anatolia, and the division of nearly all of the remainder of the Empire into either colonial depen-

² The United States did not declare war against Turkey, but diplomatic relations were severed by Turkey.

dencies or spheres of influence of Great Britain, France, and Italy, or native states under the protection of those powers. The collapse of Russia and other events partly altered these plans, but foreign territorial ownership was greatly increased as a result of the Allied victory. Upon conclusion of the war important territories were taken from Turkey. Syria became a French mandate, and Palestine and Mesopotamia British mandates, and Turkey in Europe almost disappeared, with even Allied control of Constantinople and, as a result of later events, Armenia came under the control of Soviet Russia, Turkey became little more than Anatolia. The Straits, so strategic in trade and shipping routes of much of the entire Near East, and of interest to many nations, were neutralized. However, the Kemalist movement resulted in the establishment of a new Nationalist Government which moved its capital to Angora and proceeded to resist further foreign encroachments. The principal post-war developments, as they affected the economic position of foreign interests in the present Turkey, may be briefly noted.

THE TREATY OF SÈVRES

In 1920 there was concluded the ultimately unratified Treaty of Sèvres³ for the arrangement of permanent peace between the Allies and Turkey. This treaty would have continued and in some respects increased the former foreign control. Further territorial reduction was provided in the attribution of Smyrna to Greece. Extraterritoriality was to be preserved in the neutral zone of Constantinople and the Straits, and was to be reintroduced but gradually withdrawn in other parts of the country as judicial reform, with the aid of for-

³ H. M. Stationery Office (British), *Treaty Series* No 11, 1920, Cmd 954

eign technical experts, progressed. But financial and commercial control was to remain. The Paris Peace Conference, in view of the financial impotence of Turkey, had eliminated the principle of reparations in her case (leaving only the payment of certain claims), and as a kind of substitute had reaffirmed the complete validity of the Ottoman Public Debt. Under the Treaty of Sèvres the administration of the debt was to be practically as before, with British, French, and Italian representation on the Council, the Council to operate until liquidation, after which Turkey was to consult the League of Nations for further advice and assistance. A Director-General of Customs was to be appointed. Freedom of transit through Turkish territory for persons, vessels, and goods, with no transit customs duties, was provided, together with a system of free zones in a number of important ports declared to be of international interest. Most interesting of all, there was to assist in the Administration of the Ottoman Public Debt a foreign financial commission, the consent of which would be necessary for any changes in the tax system or the customs system, any internal or external loans, or any new concessions, the commission was to have large powers over the development, by native or foreign enterprise, of the country's resources. In fact, except for certain revenues already hypothecated or conceded to the public debt administered by the Foreign Debt Council, the entire resources of Turkey were to be placed at the disposal of this foreign financial commission. Further, a special agreement was concluded by Great Britain, France, and Italy, regarding certain respective spheres in Anatolia in which French and Italian nationals, respectively, should be free from the competition of the nationals of the other state and of Great Britain in economic matters.

The new Nationalist Government, however, refused to

accept the Treaty of Sèvres, by the Angora Agreement of 1921 recovered a small portion of lost territory in Northern Syria, at various times received indications in notes from the Allied Council of Ambassadors that the Treaty of Sèvres would be modified, in September 1922 defeated the Greek armies with which it had been in combat, and in 1922 joined in the conference of Lausanne for the negotiation of a new treaty

THE ALLIED TREATY OF LAUSANNE

The Kemalist Government, in the "Nationalist Pact" which it had drawn up in 1920, had declared its unalterable opposition to the capitulations, and the first Lausanne conference failed to reach any agreement chiefly because of conflicting views on this matter. A second conference of Lausanne in 1923, however, resulted in the Treaty of Lausanne,⁴ participated in by the British Empire, France, and Italy, in agreement with Japan, and by invitation Greece, Rumania, the Serb-Croat-Slovene State, Bulgaria and Russia were permitted to participate because of the Straits question, and Belgium and Portugal, in the discussion of certain economic questions. One of the points of economic importance in the negotiation of the treaty had reference to existing specific economic concessions in Turkey, and when the conferences had been resumed in April 1923, after a temporary adjournment, the Allies had agreed not only to modify the capitulations to make them reciprocal as far as practicable but also to alter the clauses of the draft treaty concerning specific concessions in case their nationals who had vested interests in such concessions were able to reach agreements by direct negotiations with the Turkish authorities, as had been suggested by the Turkish delegation. The final treaty,

⁴ British *Treaty Series* No. 16, 1923, Cmd. 1929.

together with a number of supplementary conventions and agreements, contained territorial arrangements in which Turkey renounced all claim to the largest part of the area of the former Ottoman Empire, including Mesopotamia, Syria, and Palestine, but in which she gained somewhat over the Treaty of Sèvres. The Turkish foreign debt was correspondingly reduced, with assignment of certain proportions to countries formerly a part of the Empire. The régime of the capitulations was formally abrogated, but a limited form of extraterritoriality (with respect to personal status of non-Moslem foreign nationals) was to be continued for seven years, and European legal advisers were to participate in the investigations and reforms of the native judicial system. Former provisions of the Treaty of Sèvres concerning freedom of transit and arrangements concerning the freedom of the Straits were renewed. Of much economic importance was the fact that the Council of the Ottoman Public Debt was continued, with a certain supervision by the League of Nations. But the financial commission with its extensive economic jurisdiction, proposed in the Treaty of Sèvres, was omitted. Many specific economic concessions to foreign nationals, existing in Turkey, of course remained largely unaffected by the new treaty, but it was reported that Turkey refused at the conference to validate certain claims of this sort, notably regarding oil concessions, which she had held to be invalid and which certain of the powers had endeavored to persuade her to recognize. Finally, though it was not a part of the new treaty, one of the Allied representatives, speaking for the Allies at the Conference, declared that "the principle of the Open Door will continue to remain in force in Turkey in economic matters"—a point of importance with relation to the American insistence upon maintenance of equality of opportunity for all foreign enterprise.

THE AMERICAN TREATY OF LAUSANNE

American treaty relations with Turkey had been based primarily upon a treaty of commerce and navigation of 1830, and a protocol of 1874. The former had guaranteed to American commerce and shipping most-favored-nation treatment in matters of duties as well as of imposts and privileges and facilities, and the latter had given Americans the right to hold real estate in Turkey subject to the laws and regulations governing Turkish nationals provided the "ancient treaties" remained in force. Americans thus shared in the system of general rights and privileges of foreigners. In 1917 the United States did not go to war with Turkey, but diplomatic relations were severed. From the economic viewpoint the United States was interested in the Lausanne negotiations, because whatever determinations were made concerning commercial intercourse with Turkey would probably affect American interests through application of the most-favored-nation principle, and because the United States, even though it should conclude a separate peace, maintained certain rights resulting from the common victory of the Allied and Associated Powers and insisted that with respect to adjustment of concessions or claims to concessions for the exploitation of Turkish resources no rights be asserted by other powers which would be monopolistic or would exclude American interests, that is, which would violate the principle of the open door and equality of opportunity. Consequently, the United States was represented at both the first and second phases of the Allied Conference of Lausanne, its delegates presenting a number of declarations of the American position and statements bearing on the settlement of the problems of the conference. However, it concluded separate treaties and supplementary agreements,

the chief of which was the so-called American Treaty of Lausanne, of August 6, 1923.

The principal provisions of this treaty⁵ of economic importance were as follows: The parties joined in declaring the régime of the capitulations, with respect to residence and judicial and fiscal matters, completely abrogated, but American citizens in Turkey were to be, not under the jurisdiction of consular tribunals, but under that of American tribunals outside Turkey in certain matters, such as those of personal status. Mutual most-favored-nation treatment was guaranteed in matters of freedom of commerce and navigation in general, and, specifically, of import and export duties, consumption and excise taxes, transit duties and drawbacks, and protection of patent and trademark rights. Nationals of each country, subject to compliance with local laws and regulations, were to have complete freedom to enter and establish themselves in the territory of the other country, and to engage "in every kind of profession, industry or commerce not forbidden by the local laws to all foreigners." They were (Article 3) to have the same rights as natives in possessing and disposing of movable property, that is, were to receive national treatment, and in possession and disposition of immovable property, were to have, subject to reciprocity, the same rights as accorded to foreigners in general by the laws of the place of situation of the property, that is, were to enjoy reciprocal most-favored-nation treatment. It was further specified (Article 4) that "commercial, industrial, and financial com-

⁵ Since this treaty was not ratified by the United States, its exact text was not made public. *Vide*, however, Turlington, E. W. (Assistant to Solicitor, Department of State), *The American Treaty of Lausanne*, World Peace Foundation, Vol VII, No. 10, Boston, 1924, containing valuable discussion of Turkish treaty relations and an official summary of the American Treaty of Lausanne.

panies and associations," organized and maintaining head offices in one of the countries, "shall be recognized by the other country," and "shall be entitled to the same protection as that accorded to nationals in Article 3." Article 7 provided for reciprocal national treatment to citizens and subjects in all matters of taxation, but went on to specify that companies mentioned in Article 4 were, on condition of reciprocity, "to enjoy the same treatment as any similar foreign company" — a kind of combination of both national and most-favored-nation treatment. The treaty, then, was one of mutual recognition of rights of nationals and was a practically complete reversal of participation in the former system of special foreign rights, although certain of its clauses insured treatment of American nationals and their interests equal to that of any other foreign nationals and their interests. It failed of ratification in the United States Senate in January 1927, with a continuation of Turko-American relations on the basis of temporary arrangements,⁶ and with some possibility of the ultimate negotiation of a somewhat similar treaty.

THE POSITION OF FOREIGN ENTERPRISE IN TURKEY

The exact position of foreign industrial, commercial, and financial interests in Turkey is legally and also practically somewhat changed by these World War and post-war events. The capitulatory régime is, of course, technically abrogated.

⁶ "As a result of conversations between Admiral Bristol and the Turkish Minister of Foreign Affairs at Angora, an understanding has been reached between the two governments which provides for the preservation of the status quo pending a decision on the question of treaty relations and which contemplates the resumption of official relations between the two countries" — Statement by U. S. Department of State, Feb. 18, 1927. Text of the notes exchanged at Angora, Feb. 17, 1927, between American High Commissioner to Turkey and Turkish Minister of Foreign Affairs, given in press release by Department of State, March 14, 1927.

and the foreign financial commission of sweeping economic power proposed in the Treaty of Sèvres did not become a reality. What remains of the Turkish nation, after the large post-war territorial reduction, has theoretically thrown off the entire system by which foreign enterprise had obtained special rights and privileges. On the other hand, the foreign debt remains under the nominal control of the Ottoman Public Debt Administration, even though the Turkish Government has reduced the autonomy of that body, and these foreign loans constitute an important part of the outstanding public debt of the country. The Ottoman Bank, founded by British capitalists in 1856 and later joined by French capitalists, has an important position. It has taken on somewhat more of a Turkish character, but under its agreement of 1924 with the Turkish Government, it remained an Anglo-French institution. It regained its position as a bank of issue and occupies, though with a certain Turkish control, a more or less strategic position in the public finance and banking system of the country. There are other important foreign banks and bank branches, including French, German, Italian, and Russian.⁷ Most significant, however, is the fact that foreign concessions still exist in large number and embrace not only exploitation of material resources but also the development and operation of public utilities. Foreign capital has a limited place in domestic manufacture,⁸ seldom a favorite field for foreign concessionaires in any undeveloped country, while foreign mining concessions were estimated as totalling more than 1000 in number by the end of 1922.⁹ Foreign development

⁷ *Vide* U. S. Department of Commerce, *op cit*, esp. pp. 210-219 on public finance, and pp. 221-225 on the Ottoman Bank and foreign private banks.

⁸ *Ibid.*, pp. 160 *et seq.*

⁹ *Ibid.*, pp. 127-159, esp. 129, 130, and 131.

and operation of important public utilities extend to telegraph, telephone, radio, and commercial aviation¹⁰ The concessionary interests are chiefly British, French, German, and Italian, and there are also American interests

The economic results of the new nationalism include a law (No 608) passed by the National Assembly. It provided that "the State takes over all newly discovered mines and those that have not been worked since their discovery for a period of 15 years reckoned from April 14, 1925, all abandoned mines, and all mines for which the concession has been cancelled" It also provided that "all mining officials and workmen must be Turkish subjects, except where technically equipped Turks are not available, in which case an outside specialist may be engaged for the period necessary to train a Turkish understudy to carry on the work (a proviso that is common to all industrial enterprises under the Turkish Republic)"¹¹ But even this law does not attempt totally to debar foreign capital, and there are indications that the Turkish nationalists recognize the need of outside capital and technical assistance, and, at least if it can be obtained without too direct foreign control, welcome it

Publicly, then, from the viewpoint of legal status and foreign governmental control, the Turkish Republic which territorially remains from the near dismemberment of the former Turkish Empire following the World War, has gained much in economic autonomy In viewing this change it may also be observed, not only that the new native nationalism has gone far toward accomplishing its ends, but that so far as the foreign powers are concerned rivalry among these powers themselves, as reported to have been in evidence at Lausanne, has probably played a part in the weakening of their joint control over the economic development of such

¹⁰ *Ibid.*, pp 68, 69, 70, 71, 72

¹¹ *Ibid.*, p 130

a country. The adjustment of such rivalry often results in attempts to divide the advantages, as in the allotment of the appropriated Turkish territories, the unsuccessful attempt at recognition of French and Italian spheres in Anatolia, and the attempted San-Remo Agreement of 1920 for the Anglo-French division of petroleum rights in the Near East and elsewhere. But such accommodations of conflicting interests are not always effective. In turn, the American insistence upon the open door and equality of opportunity in the economic development of such regions serves to check exclusive control and to generalize the advantages obtained for foreign enterprise in such development. Nevertheless, vestiges of the old special control system in Turkey remain, as in the Debt Administration. And, turning to the actual private economic conditions, it has been seen how foreign enterprise continues to be of special importance in Turkey and is likely to continue so because of the realization of the need of foreign capital and management, however much it may be limited by nationalistic measures. The form, under laws and treaties, changes, but unless such countries are to remain largely undeveloped economically there may be expected to continue, for a considerable period to come, under one set of conditions or another, the extension to them of foreign enterprise.

FOREIGN ECONOMIC RIGHTS AND INTERESTS IN THE FAR EAST CHINA

The Far East is another region of the world in which the powers have not only obtained colonial possessions but have also gained for their economic enterprise special interests and special rights in countries remaining nominally sovereign and independent nations¹². This has been par-

¹² For general works on the position of the western powers in the Far East, *vide* Adams, Brooks, *American Economic Supremacy*, N. Y.,

ticularly true in China¹³ The special system there is at present showing signs of disintegration before the forces of a new nationalism but its structure up to the present time is of unique interest

THE SITUATION IN CHINA BEFORE THE WASHINGTON CONFERENCE

The General Situation. This régime of special rights and interests in China is so complex and so closely related to military and diplomatic events that a survey of it cannot be confined to a treatment of the purely economic status of industrial enterprise, nor to a statement concerning commercial

1900 *Annals of the American Academy of Political and Social Science*, Vol. 122, "The Far East," Phila., November 1925 Anderson, Frank M., *Handbook for the Diplomatic History of Europe, Asia and Africa, 1870-1911*, prepared for the National Board for Historical Service, Govt. Printing Office, Washington, D. C., 1918 Conant, Chas. A., *United States in the Orient, the Nature of the Economic Problem*, Boston, 1900 Dennett, Tyler, *Americans in Eastern Asia*, N. Y., 1922 Foster, John W., *American Diplomacy in the Orient*, Boston, 1903 Gibbons, H. A., *The New Map of Asia*, N. Y., 1919 Hornbeck, Stanley K., *Contemporary Politics in the Far East*, N. Y., 1916 King-Hall, Stephen, *Western Civilization in the Far East*, N. Y., 1924 Millard, Thos. F., *Conflict of Policies in Asia*, N. Y., 1924 *Reed's Far Eastern Manual*, Shanghai, 1923 (contains data on mines, railways, etc., in the Far East) *Reawakening of the Orient*, Yale University Press, 1925 (Addresses and papers of the Williamstown Institute of Politics, 1924) Reinsch, Paul, *World Politics at the End of the Nineteenth Century as Influenced by the Oriental Situation*, N. Y., 1900 Robinson, G. T., *Asia's American Problem*, N. Y., 1921

¹³ For general works on the Chinese problem, *vide* Gowen, Herbert H., and Hall, J. W., *Outline of Chinese History*, N. Y., 1926 Parker, Edw. H., *China, Her History, Diplomacy and Commerce from the Earliest Times to the Present Day*, London, 1917 Williams, Edward T., *China Yesterday and Today*, N. Y., 1923 Bau, Mingchien I., *Foreign Relations of China*, rev. ed. 1922, also his *Open Door Doctrine in Relation to China*, N. Y., 1923 Blakeslee, Geo. H., *China and the Far East*, N. Y., 1910 Lee, M. P. H., *Economic History of China*, N. Y., 1920 *American Relations with China*, Johns Hopkins University Press, 1925 (a collection of papers and addresses) Morse, H. B., *International Relations of the Chinese Empire, 1861-1911*, 3 Vols., N. Y., 1918

and financial arrangements, but necessarily includes mention of general historical events, perhaps no better example may be found in modern annals of the pervasive influence of economic motives in the formal relations of nations

American Interests Before mentioning the background of historical development of this régime, a superficial idea of the actual extent of foreign interests in China proper may be obtained from a recent statement of American interests there¹¹ According to this statement, there were at this time 12,000 American citizens in China, not all of whom, of course, were there in a business capacity, 4,000 were in Shanghai, the chief business center The Japanese population was 198,000, the Russian 85,000, and the British 14,700, the bulk of the Japanese and Russian population was in Manchuria There were 600 American firms in China, about half of them in Shanghai, this number was exceeded by that of other nations American concerns, like those of other nationality, included industrial, commercial, shipping, banking, and insurance interests American investments in China were estimated at \$69,300,000, with some indication that this figure was too low In contrast, Japanese investments were estimated as amounting to as much as \$146,000,000, with British investments several times as large as the Japanese, these figures included bonds and concession advances, and also long-term credits of other types and investments in lands and buildings Such statements, however, convey only a summary notion of foreign interests, which can be understood only in the light of the intricate system of foreign control evolved in the nineteenth and twentieth centuries

Evolution of Foreign Control In 1534 the Portuguese occupied the island of Macao, in South China, and their title

¹¹ Statement in Congress by Representative Wainwright, based on statement furnished by Department of State, pub in *U S Daily*, January 21, 1927

was ultimately confirmed in 1887. The real opening of China to foreign intercourse, however, did not occur until the late eighteenth and early nineteenth century. As early as 1784 the United States sent a consul to Canton, and began to trade with China, as did other western nations, but the trade was limited. The British engaged in a brief war with that country, and concluded the treaty of Nanking in 1842, by which Hongkong was ceded to Great Britain and China definitely opened certain ports, including Shanghai and Canton, to British trade. In 1844 the United States concluded a treaty which established the right of Americans to trade in these ports and which contained a most-favored-nation clause. A second Sino-British war resulted in the cession of Kowloon to the British and the opening of the port of Tientsin. France nominally participated, and concluded a most-favored-nation treaty, acquiring similar rights of trade. The Taiping Rebellion led to the taking over, in 1853, of customs administration at Shanghai by the British, French, and American representatives, this foreign administration ultimately being extended to all China, though under native sovereignty. France engaged in war with China and in 1885 annexed Tongking.

Meanwhile, Japan had begun to emerge as a power, and the Sino-Japanese war of 1894 was concluded with Chinese recognition of the equality of Japanese nationals in trade and other rights of the type already granted to the British, French, and Americans. Japan also gained Formosa, and took possession of the Liaotung peninsula, but waived rights to the latter in return for an increased indemnity. In the decade 1890-1900 the partitioning of China was anticipated by many western observers, but such complete aggression did not eventuate, possibly due to the difficulty of adjusting the relative ambitions of the Japanese, British, French, and

Russians, all of whom had not only received territory but had begun to lay claim to special interests in various areas.

But the rivalry continued. In 1897 Germany obtained a lease of the harbor and port of Kiaochow and certain exclusive privileges in Shantung. Nominally in order to restore the balance thus disturbed, Russia in 1898 obtained a lease of Port Arthur, Dairen, and adjoining areas on the Liaotung peninsula. In the same year the British leased Kwangchowan. This year was known as the year of the "battle of the concessions." It was followed by the Boxer Rebellion, which might have resulted in further territorial dismemberment of China had it not been for American influence, the Boxer Protocol of 1901 provided for indemnity to the foreign powers affected. In 1900 John Hay exchanged notes with the other western powers and obtained their pledge of respecting Chinese territorial integrity and of maintaining the open door in China.

By agreements of 1902 and 1905, supplemented in 1911, the British and Japanese formed the Anglo-Japanese Alliance, by which they mutually recognized each other's interests in the Far East, the British in China and especially on the Indian boundary, the Japanese in China and especially in Korea, and engaged mutually to join in defensive wars for the maintenance of these interests. The conclusion of the Russo-Japanese war of 1904-5 curbed Russian influence in Manchuria and restored that area nominally to complete Chinese jurisdiction. The Japanese succeeded to Russia's lease of Port Arthur and the tip of the Liaotung peninsula. Russian aggression in Korea was eliminated, and that country was declared independent of China, and in 1910 it was annexed by Japan.

In 1914 Japan took possession of the German holdings of Kiaochow and in Shantung, which she retained under the

Treaty of Versailles. In 1915 she made the "twenty-one demands" upon China, and these included the extension of the lease of Port Arthur and Dairen and areas on the Liaotung peninsula, of the lease of the South Manchurian and Antung-Mukden railways, and other special rights in Manchuria, Eastern Inner Mongolia, and Shantung.

Meanwhile, as well illustrated in certain of the twenty-one demands, in addition to these territorial acquisitions of the powers other than the United States, there had developed an increasing system of entrance of foreign enterprise into various sections of China, for developing resources and building railways as well as for mere trading, and such projects were directly related to territorial acquisition and particularly to sphere of interest claims; they were, in total, the real basis for the latter.

The United States, however, would not recognize these spheres of interest, and finally called the Washington Conference of 1921-1922 partly for the purpose of attempting to obtain agreement among the powers for the preservation of Chinese territorial integrity and the fuller establishment of the open door and equality of opportunity in China.

Special Foreign Possessions and Interests. Encroachment upon Chinese jurisdiction, as seen above, has included cession and lease of territory, and also certain other limitations. The more important of these various types of limitation may be outlined.¹⁵

¹⁵ The most complete compilations of the texts of the various treaties and agreements and notes are the following: (a) *Hertslet's China Treaties, etc., between Great Britain and China, and between China and Foreign Powers, etc.*, London, 1908. (b) *Rockhill's Treaties, Treaties and Conventions with or concerning China and Korea, 1895-1901*, edited by Rockhill, W. W., Washington, Government Printing Office, 1904. (c) *Chinese Maritime Customs Administration, Treaties, Conventions, etc., between China and Foreign States*, published by order of the Inspector General of Customs, 2d edition, Shanghai, 1917. (d) *MacMurray's China*

Ceded Territories — Hongkong, Formosa, Korea. Although the territories ceded by China to foreign powers are no longer subject to Chinese jurisdiction in any sense, their cession is a matter of interest. The principal ceded territories are Hongkong, Formosa or Taiwan, and Korea or Chosen, although there have been other cessions, including the Portuguese occupation of Macao in 1534 with confirmation of title in 1887, and the annexation of Tongking by France in 1885.

Hongkong was ceded to Great Britain in 1842 following the first Sino-British war, at the same time that the Chinese agreed to open certain ports, such as Canton and Shanghai, to British trade. Subsequently the British obtained (by lease) a strip of territory on the adjoining mainland, known as Kowloon. The possession of Hongkong has been of very great economic importance to the British in their activities in the Far East. It is one of the leading entrepôts of the world, through which passes a very considerable proportion of the foreign trade of southern China. It furnishes to the British a strategic trade base, for location of merchants and

Treaties *Treaties and Agreements with and concerning China, 1894-1919* (including private agreements), compiled by MacMurray, J. V. A., N. Y., 1921.

For United States treaties, etc., *vide* (a) Malloy's *Treaties, Treaties, Conventions, International Acts, Protocols, and Agreements between the United States of America and Other Powers*, Vols. 1 and 2, 1776-1909, compiled by Malloy, Wm. M., Vol. 3, 1910-1923. (Note — Treaties published subsequently are available in the "Treaty Series," separately.) (b) *Foreign Relations of the United States*, published annually under the authority of the Secretary of State.

For general and classified statements concerning the system of foreign rights and interests in China, *vide* (a) Morse, H. B., *Trade and Administration in China*, Shanghai, 1912. (b) Willoughby, W. W., *Foreign Rights and Interests in China*, Johns Hopkins University Press, Baltimore, 1922. (c) *China Yearbook*, edited by Bell, H. T. M., and Woodhead, H. G. W., Shanghai (unofficial). (d) U. S. Department of Commerce, *Commercial Handbook of China*, by Commercial Attaché Julian Arnold, 2 vols., esp. Vol. 2, 1919 (revised ed., 1927).

stocks of merchandise, and has been utilized for such things as the incorporation of British "China Companies"

Formosa, the southern island renamed Taiwan, was obtained by Japan at the conclusion of the Sino-Japanese war of 1894-1895. It is industrially significant particularly as the source of production of a large share of the world supply of natural camphor, of which Japan has a practically complete monopoly.

Korea, later termed Chosen by the Japanese, was at one time a nominally independent kingdom, but an agreement between that country and China in 1882 definitely placed it in a position tributary to the latter.¹⁶ However, Japanese fear of possible Chinese, and particularly Russian, aggression here was a factor in the Sino-Japanese war, and at its conclusion Japan obtained from China, in 1895, and from Russia in 1896, recognition of Korean independence. The Anglo-Japanese Alliance agreements of 1902 and 1905 included British recognition of Japan's special interests in Korea, and by means of the Russo-Japanese war of 1904-5 Japan succeeded in eliminating Russian influence there. Japan at this time and on several other occasions reaffirmed her desire for the maintenance of the territorial integrity of Korea, but in 1904 and 1905 arranged for the establishment of Japanese financial and diplomatic advisers there and took control of all Korean postal and other communications systems, and late in 1905 took control also of Korean foreign relations. She obtained, in 1906, an agreement for the Japanese exploitation of forests in the Yalu and Tumen regions. Other measures of exploitation and control led up to Japanese annexation, by treaty of 1910.

¹⁶ For a convenient collection of the official documents bearing on the status of Korea, *vide Korea, Treaties and Agreements*, compiled and published by Carnegie Endowment for International Peace (James Brown Scott, Director), 1921.

In addition to its natural resources, including timber, Chosen is economically useful to Japan as a link in her chain of South Manchurian interests, for example, a railway runs from Fusan, at the tip of the peninsula, through Seoul and into Fengtien, connecting with the Japanese-owned South Manchurian Railway at Mukden

Leased Territories — Liaotung Peninsula and Shangtung. In addition to the territories which have been ceded, there are other Chinese territories which have been leased to foreign powers and which for practical purposes are administered by the latter as if parts of their own territory. In 1897 Germany leased Kiachow, and in the following year, in order to restore the balance of power, Russia acquired a lease of a part of the Liaotung peninsula, Great Britain a long term lease of Weihaiwei (later developed as a naval base), and France a long term lease of Kwangchowan in the Province of Kwangtung. This was the year, 1898, of the "battle of the concessions." The Liaotung and the Shangtung leases were particularly important.

The so-called "*Kwangtung Leased Territory*,"¹⁷ including *Dairen* and *Port Arthur* and an adjoining area at the southern end of the *Liaotung Peninsula*, leased to Russia in 1898 for a period of twenty-five years, was demanded by Japan upon her victory over China in 1895, but this demand was withdrawn in return for a larger indemnity. Upon her victory over Russia in 1905, however, she obtained the transfer of this lease to herself, and the lease was later extended to ninety-nine years. This territory is of strategic economic importance, with *Dairen* as the commercial terminus of the South Manchurian Railway. Its possession, together with that of Korea, gives Japan a large advantage in the economic penetration of South Manchuria.

¹⁷ Not to be confused with Kwangtung Province

The *Shantung* question also involves a lease. As a result of activities of 1897 Germany concluded a convention with China in 1898¹⁸ by which the former leased for ninety-nine years an area including the entrance to Kiaochow Bay and the port of Tsingtao in the Province of Shantung, there were also included rights to build two railway lines to Tsinan, the capital of the Province, and to carry on mining operations within a strip of territory about ten miles wide along both sides of the railways. A subsequent agreement (1911) substituted specified mining areas for this strip of land. The Shantung Railway was ultimately constructed to Tsinan, where it joins the important Tientsin-Pukow Railway which links the lower Yangtze Valley (with the latter's outlet at Shanghai) with Tientsin near Peking. Germany also obtained preferential rights to supply all "persons, capital, or material" in any foreign economic enterprise in the entire Province.

In 1900 Germany and Great Britain agreed to maintain the status quo in China, and exchanged notes with the Governments of Austria-Hungary, France, Italy, Japan, Russia, and the United States on the same question. These Governments accepted the principles laid down, the United States pointing out that it had long stood for the maintenance of Chinese territorial integrity and of the Open Door in China. Various agreements, concluded between 1900 and 1914, provided in greater detail for the exercise of the German railway and mining rights in Shantung and for their extension, and an Anglo-German bankers' arrangement of 1898 provided for spheres of interest in railway construction in China, the Shantung Railway line, with certain projected

¹⁸ For a convenient collection of official documents, *vide Shantung, Treaties and Agreements*, consisting of original documents compiled and published by the Carnegie Endowment for International Peace, 1921.

connecting lines, being included in the German sphere, while the British sphere lay largely in the Yangtze Valley

In 1914, shortly after declaring war against Germany, Japan took possession of the German properties in Shantung. One of the "twenty-one demands" made by Japan upon China in 1915 concerned these rights, and in a resulting Sino-Japanese treaty of the same year the Chinese Government gave its assent to all matters upon which the Japanese Government might thereafter agree with the German Government relating to the disposition of German rights, interests and concessions in Shantung, including Japanese capital rights in a projected railway from Chefoo or Lungkow to connect with the Kiaochow-Tsmanfu line, if Germany should abandon her privilege of financing such a railway. It was also provided by exchange of notes that China would not lease or cede any territory in Shantung to a third power, and that she would open commercial ports in Shantung. By notes and agreements¹⁹ of 1917 Japan was alleged also to have obtained the assurance of Great Britain, France, Russia, and Italy that at the conclusion of the World War they would support her claims to the former German possessions and interests in Shantung. Note exchanges of 1918 dealt further with the Japanese interests there, providing for ultimate "cojoint" working of the Kiaochow-Tsinan Railway by Japanese and Chinese and for extensions of the railway with use of Japanese capital. An agreement, typical of many of the arrangements for introduction of foreign enterprise, was made, not between the two governments but between the Chinese Government and a Japanese banking syndicate, providing for Chinese construction of these railway extensions, with initial advance of 20,000,000 yen, and for the

¹⁹ Alleged secret agreements, texts, based on press reports, given in Carnegie Endowment compilation cited above.

pledging as security of all the present and future property and revenues of the two railways when built. By the Treaty of Versailles ²⁰ 1919, Germany renounced, in favor of Japan, all her rights, titles, and privileges acquired by the 1898 and subsequent agreements relative to Shantung, particularly those concerning the territory of Kiaochow, railways, mines, and submarine cables, it was specifically provided that all German rights in the Tsingtao-Tsinanfu Railway and its properties and branches, "together with all rights and privileges attaching thereto," "are and remain acquired by Japan." China, which had been an ally of Japan and not of Germany in the war, protested the arrangement, and did not sign the treaty because of her "inability to accept" the provisions "in reference to the rights and interests in Shantung." Certain records ²¹ indicate, however, that Japan promised the retrocession of Kiaochow Bay and in general of all the territorial and political rights involved to China, with Japanese retention of only the economic concessions, in Shantung. ²²

Foreign Residential Areas While the leased territories referred to above have been nominally within the scope of Chinese sovereignty they have been administered practically as though a part of the territorial possessions of the lessees; they have clearly had the latter status from the economic viewpoint, and have been so utilized for considerable economic advantage. However, a further type of special foreign territorial status is that of the foreign residential areas. A

²⁰ Part IV, Section VIII, Articles 156-158

²¹ *Supra*, Carnegie Endowment compilation of documents

²² China terminated her war relation with Germany by a declaration of 1919, and in 1921 negotiated with Germany an agreement of commerce and amity, which included a most-favored-nation tariff clause and a provision that "all customs matters are regulated solely by the internal legislation of each"—an interesting provision with respect to Chinese tariff autonomy

number of these have been set aside, from time to time, in the open ports of China, and are known as "areas set apart for foreign residence," or as "foreign residential concessions," or "foreign settlements." In these areas the sovereignty of China has not been surrendered or suspended. The foreigners living within them have been entitled to only those extraterritorial rights and privileges to which they are entitled elsewhere in China, while the Chinese living within these boundaries have not been at all removed from the jurisdiction of the various branches, judicial and otherwise, of the Chinese Government. For example, land-holding foreigners have been subject to the ordinary land tax. In these areas, however, the Chinese Government has given permission to the foreigners concerned to maintain local administrative agencies of their own for the exercise of police, road building, and similar powers.

The areas have been of four principal types.²³ (1) the International and French Settlements at Shanghai, which include areas set apart for foreign residence and trade, but not leased to foreign powers, here deeds to interests in land have been issued and registered in the usual way by the Chinese authorities. (2) Residential concessions such as those at Tientsin, Hankow, and Canton, where areas were leased in perpetuity to particular powers, and divided into lots the subleases for which were sold and the proceeds used for building roads, "bunds" on river banks, and other public improvements, here the chief official has been the consul of the nation holding the concessional lease. (3) Residential concessions of the type at Yochow, where the Chinese Government expropriated land for an "international settlement," laid out roads, and sold lots by auction, reserving annual

²³ Classified by Morse, H. B., and cited in Moore's *Digest of International Law*, II, 648, and in Willoughby, W. W., *op cit*, pp. 208-227.

ground rent, wharfage dues have been levied, municipal administration has been under joint control; "all expenses are at the charge of the Chinese Government," "the community is burdened neither with further taxation nor with the task of governing," and "in the event of further taxation becoming necessary, it will be under the control of a representative body" (4) So-called foreign residential concessions such as those at Chefoo, where there was no lease or formal agreement, but where a foreign quarter grew up by tacit understanding, in which foreign residents have maintained order "mainly through the force of public opinion"

Two other types of foreign territorial rights should be noted: (a) The Legation Quarter at Peking which, after the Boxer outbreak of 1900, was set aside for the use of foreign legations and placed under their exclusive control, the powers were given the right to make this area defensible in a military way²⁴ (b) Foreign garrisons which, under the final Boxer Protocol,²⁵ were to be maintained by the treaty powers at various points between Peking and the coast, as for example at Tientsin, during and following the revolutionary disturbances of 1911-12 the powers also set up military control over certain sections of the Peking-Mukden Railway

Practically all of the important cities of China contain one or more of the foreign residential areas described, some of them international, and some national. Such areas have been utilized by foreign residents sojourning in China for industrial and commercial purposes

Extraterritoriality The treaty powers by early treaties established extraterritorial rights in China²⁶ The resulting

²⁴ Final Protocol of September 7, 1901, Art VII ²⁵ Art IX

²⁶ Strictly viewed, extraterritorial rights, as common to nationals of various treaty powers, should be classified in the following section of this chapter on the general position of foreign enterprise

system has been of significance largely in a purely judicial way, but an example of its economic advantages is found in the arrangement of the British Supreme Court for China for the incorporation of British China Companies

Spheres of Interest — Yangtze Valley, Manchuria, Twenty-one Demands No better example may be found of the sphere of interest system and its economic importance than in China in modern times. In fact the system largely evolved there, with a possible distinction in terms between spheres of interest, carrying a particular economic emphasis, and spheres of influence, bearing somewhat more of a political implication and illustrated chiefly in the process which led to the so-called partitioning of Africa. This distinction cannot be sharply drawn, for spheres of interest in China have possessed political aspects, but they have centered more around economic interests and their development at least has been checked, in many instances, before reaching the point of annexation. The system is not easy to define in the most definite terms, for such a sphere lacks the fairly clear-cut legal status of a leased territory, and has usually been accompanied by, indeed has been constructed upon the basis of, an intricate fabric of economic concessions and other forms of economic penetration. Nevertheless, the system finds formal expression in treaties and agreements of various kinds. Such agreements may be divided into three fairly distinct types. In the first place there have been agreements between a given foreign power and China in which the latter has recognized the former's special rights in a given part of China. Secondly, two foreign powers have in certain instances concluded written agreements, or have arrived at informal or secret diplomatic understandings, for the definite mutual recognition of each other's respective spheres in China; such agreements are doubtless the most important

type, and may in a sense be considered the essence of the system so far as form rather than economic content is concerned. Thirdly, as a further extension of this type of understanding, there have been general agreements between two or more foreign powers for the maintenance of the status quo in China. Such agreements have varied considerably in real purpose. For example, when the United States has participated in them in one form or another, it has been for the purpose of preventing further inroads upon Chinese territorial integrity and of reaffirming the doctrine of the open door. But in other cases such agreements, even when employing the phrase, "territorial integrity of China," have quite evidently amounted to mutual recognition, among the territory-obtaining powers, of their respective, existing holdings there, as in the case of the Anglo-German agreement of 1900 following the German acquisition of the Kiaochow lease and other economic, non-lease rights in Shantung. Even the Anglo-Japanese Alliance agreements of 1902 and 1905 may be classified as partly of this third type of instruments for the declaration of spheres of interest, for in them Great Britain recognized Japan's paramount political, military and economic interests in Korea, that region having not yet been annexed by Japan.

The principal "sphere" powers have been Japan, Great Britain, Russia, France, and Germany, and especially the first two, although Russia was active in this direction prior to her defeat in the Russo-Japanese War of 1904-5 when Japan largely superseded her in influence in the north. As has been mentioned, Germany was dispossessed by Japan in Shantung in 1914-19. The process of economic penetration, involving economic concessions and spheres of interest, which went on largely from the latter part of the nineteenth century to 1921, may be summarized in the following general

terms. Great Britain reached inward from Hongkong to the southern provinces of Kwangtung and Kwangsi, and from her commercial predominance at Shanghai asserted her sphere in the central region of the Yangtze valley. France reached upward from French Indo-China toward the province of Hunan, and to some extent competed with the British interests in the south and elsewhere. Germany obtained and lost special rights in Shantung. Russia penetrated from the north into Manchuria, but was ultimately largely checked by Japan. Japan, particularly interested in the areas nearest her home islands, reached upward from Chosen and the southern end of Liaotung peninsula into Manchuria, and even into Inner Mongolia, and also acquired special interests elsewhere, as in Shantung, and in the Han-Yeh-Ping industrial enterprises of central China. Thus, as already partly mentioned, by treaties of 1892 and 1896 with China, Russia asserted preferential rights in Manchuria, in 1894 Great Britain by treaty with China claimed special rights on the Siamese border, and in 1898 by another Sino-British treaty asserted a "sphere" in the Yangtze valley, and by a treaty with Russia in 1899 agreed to recognize Russia's claim in the north in return for Russian recognition of the British Yangtze sphere, France by a treaty of 1898 with China assumed a preferential position in parts of Yunnan, Kwangsi, and Kwangtung provinces, Germany set up special interests in Shantung in connection with the Kiaochow lease and subsequent agreements, Japan, by treaty with China in 1898, asserted preferential rights in Fukien province, assumed the Russian claims in southern Manchuria at the conclusion of the Russo-Japanese war, in 1914 claimed the German rights in Shantung, and in 1915, in the "twenty-one demands," assumed additional special interests in Manchuria and Inner Mongolia and in other areas and enterprises in China.

Belgium and the United States appear to have been practically the only ones of the industrial powers at all active in the way of economic enterprise in China which have used neither territorial acquisition nor establishment of spheres of interest in order to further their economic interests. The traditional attitude of the United States has been one of opposition to monopolistic concessions in any form and to the "sphere of interest" system in China. This attitude is based both upon general policies and principles, and upon definite provisions in China's treaties with all the "Treaty Powers." For example, the American treaty of 1844 provides in Article 15 that citizens of the United States "shall not be impeded in their business by monopolies or other injurious restrictions," and the American treaty of 1858 provides in Article 30 that if at any time China may "grant to any nation or the merchants or citizens of any nation, any right, privilege, or favor connected either with navigation, commerce, political or other intercourse not conferred by this treaty, such right, privilege, and favor shall at once freely inure to the benefit of the United States, its public officers, merchants and citizens." While these and similar treaties clearly commit China and the "Treaty Powers," the most definitive enunciation of the American attitude *as an international policy* was made by Hay in a circular letter of 1899 among "the Powers," and was reaffirmed at subsequent dates; this letter set forth the Open Door policy and the doctrine of Equality of Opportunity in China, and said "the Government of the United States will in no way commit itself to any recognition of the exclusive rights of any other power within or control over any portion of the Chinese Empire." The Root-Takahira Agreement of 1908 guaranteed the status quo and the independence and integrity of China, and reaffirmed the principle of equality of opportunity. The

Lansing-Ishii Agreement of 1917 referred to the special relations between countries created by territorial propinquity, and spoke of Japan's special interests in China, particularly in the part to which her territories are contiguous, but in no sense admitted any "paramountcy" of interest such as had been asserted in certain "spheres" in China by various powers, and it reaffirmed the "unimpairment" of the "territorial sovereignty of China," and repeated that the respective Governments "always adhere to the principle of the so-called 'Open Door' or *equal opportunity* for commerce and industry in China."

The American policy, while maintained on principle, has incidentally afforded a possible potential advantage to American interests to the extent that they are concerned in Chinese development. One writer, in characterizing the American position, has said ". . . she has . . . never considered it necessary to define her views as to special interest in any one part of China. Thereby she has run the risk of being ultimately debarred from a portion at least of China's future trade. . . . She has, however, secured to herself freedom from suspicion and the good will of the Chinese Republic, each infinitely valuable, were conditions modified to render possible the rapid development of Chinese trade."

The spheres of interest, while involving military operations and political factors, such as the furnishing of foreign political advisers, have been perhaps chiefly characterized by the assertion of special economic interests in the areas concerned and by the obligation of China to refrain from alienation by cession, sale, or mortgage, any portions of them, territorially to third powers, and to recognize the special, or exclusive, rights and interests of the power claiming the sphere. Indeed, except as they may be looked upon as first steps toward a desired lease or annexation, and doubt-

less, even when so viewed, these spheres have been essentially devices of economic penetration, not for trade alone, but for development of resources and industries and communications, and other activities of foreign enterprise. They have almost invariably been honeycombed by characteristic networks of underlying economic concessions of various sorts. The public, political arrangement, in short, has been a kind of covering drawn over a predominance of private, economic interests. The nature of these concessions will be mentioned in a subsequent paragraph. Meanwhile, a fuller idea of the process of penetration may be gained by an examination of the case of Manchuria and of the so-called twenty-one demands of 1915.

Manchuria Russia had early begun the penetration, from Siberia, of northern China, but as Japan developed as a world power she came into conflict with this advance. As mentioned above, at the close of the Sino-Japanese war of 1894-5 Japan gained recognition of the independence of Korea, and had possession of the end of the Liautung peninsula, but as a result of Russian, French, and German "recommendation," "retroceded" the latter to China.²⁷ Russian interests renewed activity in Manchuria. In 1895 there was chartered the Russo-Chinese Bank, for operations in that and other regions. In 1896 this bank concluded an agreement with China concerning its operations and in the same year a further agreement with China for the construction of the now famous Chinese Eastern Railway. This railway at the present time consists chiefly of a line running from the Transbaikalian border, where it connects with a branch of the Siberian Railway from China, across Manchuria to the border of the Maritime Province, where it connects with

²⁷ For a convenient collection of official documents bearing on the status of Manchuria, *vide Manchuria, Treaties and Agreements*, compiled and published by the Carnegie Endowment for International Peace, 1921.

Vladivostok, and of a branch running south from Harbin to join the South Manchurian Railway near Changchun. It thus not only provides a short-cut from Irkutsk and points west in Russia through to Vladivostok, but is the main northern connection of the South Manchurian Railway and with the latter makes up the central transportation system for the development of all Manchuria. The Russo-Chinese Bank later became known as the Russo-Asiatic Bank, and other foreign capital became involved in it and in the Chinese Eastern Railway, the capital of the bank, about 1926, was reported to be largely French. Reverting to the events of 1896, it was reported at the time, without official confirmation, that in that year China and Russia concluded a so-called Cassini Convention by which Russia should extend the Trans-Siberian Railway across Manchuria and should obtain ice-free outlet to the Pacific, and also a secret treaty of alliance between the two countries for the special purpose of checking any Japanese aggression. In 1898 Russia leased the end of the Liaotung peninsula from China. In 1905, as a result of the Russo-Japanese war Japan fell heir to this Kwangtung Leased Territory (on the Liaotung peninsula). In 1910 she concluded a convention with Russia guaranteeing the status quo in Manchuria, and at the same time was reported to have entered into a secret treaty with Russia for their mutual recognition of each other's Manchurian spheres of interest, the line of demarcation between the latter to be "defined in the supplementary article of the Secret Treaty of 1907." In 1916 a somewhat similar Russo-Japanese convention "in regard to cooperation in the Far East" was concluded by which these two governments agreed to confer with a view to "support or cooperation", in case either's "territorial rights or the special interests, in the Far East" should be menaced. It was reported to be ac-

• accompanied by a secret treaty of alliance, to strengthen similar secret agreements of 1907, 1910, and 1912. In 1915 Japan made important demands upon China for further Japanese rights in Manchuria. In 1919 France, Great Britain, Italy, Japan, Russia, the United States, and China concluded an agreement for the inter-allied supervision of the Trans-Siberian railway system, including the Chinese Eastern. These are the main outlines of the Manchurian situation prior to 1921.

However, the above were the public measures in the case. Meanwhile, the private process of economic penetration had been going on apace. The importance of the Chinese Eastern Railway has been mentioned. In 1906 the Japanese Government issued an order authorizing the incorporation of the South Manchurian Railway. This railway, with the controlling shares owned by the Japanese Government itself, has been developed fully, running from Port Arthur and Dairen, which latter port in the Kwangtung Leased Territory the Japanese have greatly developed commercially, northward through Mukden, where a branch runs southeast to connect with the tip of Korea and on northward from Mukden to connect with the Chinese Eastern. Various branches have been built or projected. But perhaps most interesting, with this central railway as a kind of base, Japanese interests have obtained a large number of other kinds of concessions, for such things as lumbering, and mining, and have progressed rapidly in the general economic development of South Manchuria.

These Russian, and latterly Japanese, concessions and enterprises in Manchuria are extremely numerous. Some notion of them may be obtained from the following list of a few of the more important official agreements and other documents concerning them, aside from the original Chinese

Eastern agreement 1898, Russia and China, agreement concerning southern branch of Chinese Eastern, 1899, Great Britain and Russia, notes regarding railway interests in China, 1899, reply of Russian Minister in regard to railways northward and northeastward from Peking, 1899, Russian order for building Dalny (Dairen) and creating it a free port, 1902, Chinese Eastern Railway and China, agreement for Kirin-Changchun railway, 1907, Japan and Russia, concerning junction of Japanese and Russian railways in Manchuria, 1907, Japan and China, provisional customs regulations for leased territory of Kwangtung, 1907, Russia and China, notes regarding special privileges in respect to imports into Manchuria, 1907, Chinese Eastern Railway and China (Heilungkiang Province), agreement for coal-mining; same, contract for expropriation of lands, 1907, Chinese Eastern Railway and China (Kirin Province), agreement for timbering, 1908, same with Heilungkiang Province, for timbering, 1908, Japan and China, agreement for Sino-Japanese joint stock lumber company for exploitation of Yalu timber; 1908, Japan and China, convention concerning Kwangtung-Chefoo cable and Japanese telegraph lines in Manchuria; 1908, Japan and China, supplementary loan agreement for Hsinmintun-Mukden and Kirin-Changchun railways, 1909, Japan and China, memorandum concerning reconstruction of Antung-Mukden railway; 1909, Japan and China, agreement concerning mines and railways in Manchuria (including extensions of railways, coal mines at Fushun, where Japan developed one of the largest collieries in China), and arrangements for working as joint Sino-Japanese enterprises "all mines along the Antung-Mukden Railway and the main line of the South Manchuria Railway, excepting those at Fushun and Yuentai" — the latter to be purely Japanese; 1909, Great Britain (Pauling & Co.), United States ("Ameri-

can group"), and China, agreement for Chinchow-Aigun Railway, 1910, Japan (Okura & Co.) and China, agreement for Penhsihu Coal Mining Co., 1911, Japan (Fushun Colliery Co.) and China, concerning Fushun colliery, 1911, Japan and China, for extension of Peking-Mukden Railway into Mukden, 1911, Japan and China, regarding railway connections at Antung, 1913, Japan and China, notes regarding construction of certain railways in Manchuria, 1915, various notes and agreements known as the twenty-one demands (to be noted below), 1915, Japan (Yokohama Specie Bank) and China, for Ssupingkai-Chengchiatun Railway, 1916, Russia (Russo-Asiatic Bank) and China, for Pin-Hei Railway, 1916, Japan (Okura & Co.) and China (Fengtien Province), contract for loan of yen, 1,500,000, 1917, Japan (South Manchuria Railway Co.) and China, for Kirin-Changchun railway loan, 1918, Japan (Bank of Chosen) and China (Fengtien Province) for Japanese loan, 1918, Japan (Industrial Bank of Japan, Bank of Chosen, Bank of Taiwan) and China, regarding Kirin-Hueining railway loan, 1918, Japan (Exchange Bank of China, in association with Industrial Bank of Japan, Bank of Chosen and Bank of Taiwan) and China, regarding loan for gold mining and forestry in Heilungkiang and Kirin, 1918, Japan and China, regarding four railways in Manchuria and Mongolia, 1918, Japan (Industrial Bank of Japan, Bank of Taiwan and Bank of Chosen) and China, for loan for railways in Manchuria and Mongolia, 1920, Russia (Russo-Asiatic Bank) and China, agreement supplementary to contract for construction and operation of the Chinese Eastern Railway

The Twenty-One Demands One other outstanding phase of the relations in recent times between China and the powers may be mentioned, not as a narration of diplomatic history but in order fully to suggest the process of economic

penetration in the Far East, before dealing with the more specific matters of the status of all foreign enterprise in China. The Sino-Japanese negotiations of 1915, commonly referred to as the "twenty-one demands," had to do with several different Chinese regions and problems, but they were in one sense so much of a unit and were of such distinct importance that they may be characterized as contributing the outstanding event in the Chinese problem between the outbreak of the World War and the Washington Conference.

Late in 1914 instructions were issued by Baron Kato for the presentation of certain demands to China,²⁸ and these demands were presented in January 1915. They were divided into five groups, and the instructions asserted that there was nothing new in the proposals embodied in the first group, relating to Shantung, the second group, relating to Japan's position in South Manchuria and Eastern Inner Mongolia, and the third group, relating to affiliation of Japanese capital with the Han-Yeh-Ping Company; and they stated that the fourth group merely emphasized Japan's traditional policy of preserving the territorial integrity of China—an interesting statement. The instructions admitted that the proposals of the fifth group were in a different category, but requested "best efforts" to have even these proposals carried out. The original demands were, in brief, as follows:

Group I, after the somewhat usual language expressing a desire for maintaining peace and friendly relations in Eastern Asia, proposed that China give full assent to any agreements between Japan and Germany over the disposition of

²⁸ For a convenient compilation of the leading documents, *vide* Carnegie Endowment for International Peace, *The Sino-Japanese Negotiations of 1915, Japanese and Chinese Documents and Chinese Official Statement*.

German rights, interests, and concessions in Shantung, promise not to cede or lease any territory in Shantung to a third power, consent to Japan's building a railway from Chefoo or Lungkow to join the Kiaochow-Tsinanfu Railway, and engage to open such towns and ports in Shantung to foreign trade and residence as would be jointly decided upon by Japan and China.

Group II, since the Chinese Government "has always recognized the predominant position of Japan in South Manchuria and Eastern Inner Mongolia," demanded that the term of the lease of Port Arthur and Dalny and of the South Manchurian Railway and the Antung-Mukden Railway be extended to a further period of 99 years, that Japanese subjects in South Manchuria and Eastern Inner Mongolia be permitted to lease or own land and engage in other activities for industrial, commercial, and agricultural purposes, that China grant to Japanese subjects the right of opening the mines in those regions, that China agree to obtain Japan's consent in advance before granting to other foreign nationals railway construction rights in those regions or before obtaining loans under the security of taxes there, that China first consult Japan whenever needing the services of political, financial, or military advisers there, and that China agree that control and management of the Kirin-Changchun Railway be handed over to Japan for a term of 99 years.

Group III demanded that the Han-Yeh-Ping Company be made a joint concern of the two nations, that no rights or properties of that company be disposed of without Japanese consent, that no mines in the neighborhood of those of the company be worked without Japanese consent, and that any future measures affecting the interests of the company receive first the company's consent.

Group IV asked that China engage not to cede or lease

to a third power any harbor or bay or island along the coast of China

Group V contained various proposals of both general and specific nature. Those which were territorially specific included ones by which China would agree to grant to Japan the right of constructing a railway connecting Wuchang and Kiukiang and Nanchang, another between Nanchang and Hangchow, and another between Nanchang and Chaochow, and would agree to consult Japan first if foreign capital were needed to work mines, build railways, and construct harbor works in the Province of Fukien, "in view of the relations between the Province of Fukien and Formosa and of the agreement respecting the non-alienation of that province." The general articles included proposals concerning Japanese hospitals, churches, missionaries and schools in China, and concerning Chinese purchase of munitions of war from Japan or establishment of a joint Sino-Japanese arsenal. Article 3 proposed that the police departments of various Chinese localities, where necessary, be placed under joint Sino-Japanese administration or employ Japanese police, and Article 1 provided that the Chinese Central Government engage influential Japanese as political, military, and financial advisers.

The negotiations which followed resulted in some revisions, and even Japan's ultimatum of May 7, 1915, did not result in China's complete acceptance of the demands, but many of the more important ones, especially including those of an economic character, were accepted. An official Chinese statement listed the following as among the "demands to which China agreed": Kiaochow and the Shantung group; extension of the Dairen (Dalny) and Port Arthur, and the South Manchuria and the Antung-Mukden railways, leases; Han-Yeh-Ping mines (if the company would agree); non-

alienation of China's coasts; Fukien Province; ownership of land for trade, manufacture, and agricultural enterprises; the South Manchuria mining rights, but these modified so as not to give Japan a monopoly of them, Japanese to have mining rights in nine specified areas. Six of the twenty-one demands were listed as "those demands to which China could not agree," "on the ground that they were not proper subjects for international negotiations, conflicting as they did with the sovereign rights of China, the treaty rights of other powers, and the principle of equality of opportunity," and these included. (1) monopolistic rights of the Han-Yeh-Ping in adjoining mining properties; (2) joint Sino-Japanese police administration in China, but China agreed to Japanese police advisers for South Manchuria, (3) the railway demands in the Yangtze valley, because these conflicted with British claims; (4) appointment of advisers (general), together with the demands relating to schools, hospitals, "Buddhist propaganda," munitions, and arsenals.

The actually resulting treaties and supplemental note exchanges, with their provisions of interest here, may be summarized as follows

(I) Treaty respecting Shantung. China gave full assent to any Germano-Japanese arrangement for disposition of the German rights, and agreed, as regards the railway to be built by China from Chefoo or Lungkow to connect with the Kiaochow-Tsinanfu Railway, if Germany should abandon the privilege of financing the Chefoo-Weihsien line, that China would approach Japanese capitalists for a loan; she also agreed to establish certain open ports in Shantung. A note agreed to non-alienation by China of Shantung territory to a third power.

(II) Treaty respecting South Manchuria and Eastern Inner Mongolia: The Port Arthur and Dalny, and South

Manchuria and Antung-Mukden Railway, leases were extended, Japanese were given full rights of residence and of engaging in all kinds of economic enterprise in South Manchuria, including any desired Sino-Japanese enterprises, and of leasing land for trade or manufacture or agriculture, China agreed to open ports in Eastern Inner Mongolia, and agreed to revise the Kirin-Changchun Railway Loan agreement. A note provided for selection and working by Japanese subjects of specified mining areas (in Fengtien and the southern portion of Kirin, in Manchuria). Another note provided that China, in building railways in South Manchuria and Eastern Inner Mongolia or in issuing loans on security of taxes in those areas, would first consult Japanese capitalists. Still another note agreed to preferential employment of Japanese political, police, military, and financial advisers in South Manchuria.

(III) Exchange of Notes regarding Han-Yeh-Ping. China agreed "that if in the future the Hanyehping Company and Japanese capitalists agree upon cooperation, the Chinese Government, in view of the intimate relations subsisting between the Japanese capitalists and said company, will forthwith give its permission. The Chinese Government further agrees not to confiscate the said Company, nor without the consent of the Japanese capitalists to convert it into a state enterprise, nor cause it to borrow and use foreign capital other than Japanese" (the Japanese translation reads "or to permit it").

(IV) Note regarding Fukien. China denied her intention of permitting any third power to construct docks, etc., nor to borrow foreign capital for such purposes, in Fukien.

(V) Exchange of notes regarding Shantung. Japan declared that if the leased territory of Kiaochow Bay should be placed at her disposal she would return it to China, sub-

ject to the following conditions — (1) Kiaochow Bay to be opened as a commercial port, (2) an exclusive Japanese concession (residential area) to be established at some place there, (3) “as regards the disposal to be made of the buildings and properties of Germany and the conditions and procedure relating thereto, the Japanese Government and the Chinese Government shall arrange the matter by mutual agreement before the restoration”²⁹

In such ways as above indicated have several of the leading powers undertaken to gain special and exclusive economic advantage in China. The Washington Conference, mentioned below, dealt in principle with all such processes, but it should not be supposed that that Conference obliterated all such special advantage. Of peculiar significance has been the large place of the economic objective in the processes referred to, and the economic motives behind them. The powers active in this respect are more or less highly industrialized nations, whose national economy is such that their foreign economic relations revolve largely around, not only the acquisition of foreign markets for finished products and foreign supplies of raw materials, but also the obtaining of access to economically less developed areas where their enterprise and capital may find opportunity for activity beyond the mere domestic opportunities. Whatever judgment may be formed regarding the ethics of the matter, and the methods used, the process may be viewed in the main as the aggression of outward-moving national economies, and an examination of the national economies concerned, notably in the British and Japanese cases, affords ample basis for such an interpretation.

The Status of Foreign Enterprise. What has been

²⁹ *N B* The Japanese and Chinese translations of the texts vary considerably in phraseology.

said above of the limitation of Chinese jurisdiction explains much regarding the status of foreign enterprise in that country as it has been developed for the special advantage of given powers. There is also, however, the matter of the status of all foreign enterprise there — special in the sense that it is different from that in other countries, but general in the sense that it is common to the enterprise of all the so-called treaty powers³⁰. Fully considered, this includes trade as well as mining, forestry, agriculture, and the building and operating of railways³¹. This status has been conditioned by commercial treaties, and by provisions concerning open ports, foreign post offices, the tariff system, industrial property rights, and organization and ownership of foreign corporations.

All the "treaty powers" have had nominally equal general economic access to China, this has been effected by commercial treaties, and applies to such matters as the "open ports," the tariff, trade-marks and patents and copyrights, postal facilities, and the status of foreign corporations. However, in some of these respects some incidental advantage exists.

Commercial Treaties — Equality of Access. China has

³⁰ For official documents, and general works, *vide* references *supra* — On the tariff system and on industries and foreign trade, *vide* (1) Inspectorate General of Customs (Chinese Customs Administration), Shanghai, (a) *Decennial Reports on the Trade, Navigation, Industries, etc., of the Ports Open to Foreign Commerce in China, and the Condition and Development of the Treaty Port Provinces*, 1894-1924, (b) *Foreign Trade of China*, Annual, 2 parts, pt I — Report and Abstract of Statistics, pt II — Imports and Exports, (c) Statistical Department, *Regulations, general and local, for Chinese Customs Districts*, 2 vols, 1921, (2) *Schedule of Revised Import Tariff for China*, with Tariff Rules, pub. by Kelly and Walsh, Shanghai, 1922. On industrial property rights, *vide* Altman, N F, *Handbook on the Protection of Trade-Marks, Patents, Copyrights and Trade Names in China*, Shanghai, 1921.

³¹ In the immediately following paragraphs the situation is traced only to a point prior to the Washington Conference.

treaties of "Amity and Commerce" with all the so-called "treaty powers." In general these treaties, in addition to dealing with rights of missionaries and other non-economic subjects, provide for (1) pacific relations of trade and navigation, (2) economic access to China, within certain limits, (3) for this purpose, the maintenance of Chinese "towns open to trade," the so-called "open ports"; (4) restrictions upon Chinese tariff autonomy, (5) most-favored-nation treatment in tariffs, concessions, and all economic enterprises. The first of the treaties of this type was the British one of 1842, the "Nanking Treaty." This was followed by a similar treaty with the United States in 1844, which provided in Article III that "citizens of the United States are permitted to frequent the . . . ports of . . . and to reside with their families and trade there, and to proceed at pleasure with their vessels and merchandise to or from any foreign port . . ." It also provided in Article IV that ". . . citizens of the United States engaged in the purchase or sale of goods of import or export are admitted to trade with any and all subjects of China without distinction. . . ." With respect to rights of travel, in addition to those of trade, the British Treaty with China of 1858 provides in Article IX that "British subjects are hereby authorized to travel, for their pleasure or for purposes of trade, to all parts of the interior, under passports which will be issued by their consuls, and countersigned by the local authorities", and, by reason of "most-favored-nation" clauses in American and other treaties, these same rights are extended to citizens and subjects of the United States and other "treaty powers." However, it should be noted that foreign merchants are not permitted to reside permanently or to own business establishments or other property in regions of China outside the specified "towns open to trade and residence," although by

the Japanese treaty of 1915 Japanese nationals acquired such rights in Manchuria

The United States has concluded with China altogether nine principal treaties, conventions, and agreements, of which the ones of 1844, 1858, 1868, and 1903 are notable in this connection. Great Britain has concluded 34 principal treaties, conventions, and agreements with China, including several treaties of Amity and Commerce, especially those of 1842, 1858, and 1902. The following list indicates particular countries which have concluded treaties, conventions, and agreements with China, and in parentheses the ones of especial economic significance

United States — (especially 1844, 1858, 1868, 1903); Great Britain — (especially 1842, 1858, and 1902), Japan — (especially 1885, 1896, 1903, and 1915); France — (especially 1844, 1858, and 1886); Italy — (1866), Holland (especially 1863), Belgium — (especially 1845 and 1865), Portugal — (especially 1887); Germany — (especially 1861 and 1880), Russia — (beginning 1689 and especially 1851 and 1858). China also has or has had treaties, conventions, and agreements with Austria-Hungary (1869), Brazil (1881), Congo Free State (1898), Denmark (1863), Sweden and Norway (especially 1847), Mexico (1899), Peru (especially 1874), Spain (especially 1864), Korea (or Chosen) (1899)

It should further be noted that in addition to treaties between China and other nations, there are a number of treaties between other powers relating to China, such as a considerable number between Great Britain and other European countries regarding reciprocal protection of trademarks in China and a number among various European powers and Japan regarding their respective "special interests" in China. China did not sign the treaty of peace,

of June 28, 1919, between the Allied and Associated Powers and Germany, because of her "inability to accept" the provisions "in reference to the rights and interests in Shantung." Subsequently, by a presidential mandate of September 15, 1919, she "declared the state of war with Germany to be at an end." While refraining from signature of the treaty of peace with Germany, China became a member of the League of Nations by joining with the other Allied and Associated Powers in the conclusion of the treaty of peace with Austria, of September 10, 1919.

In 1921 China concluded a "trade agreement" with Germany, by which the latter, in return for the surrender of extraterritoriality, potentially if not technically gained a moral advantage in Chinese economic affairs. After the revolution in Russia the Soviet régime abrogated all the previous "unequal" treaties with China, and claimed henceforth to ask no special rights in China.

"Open Ports" The commercial treaties first noted above provide for general economic access to China within the limits of certain designated ports or "towns opened to trade." The original list of these towns has been greatly expanded, both by a succession of treaties and by voluntary administrative action on the part of the Chinese authorities. These so-called "towns open to trade" or "treaty ports," not all of them actually ports, are sometimes divided into three classes as follows: (1) Customs stations³² including the important ports of Harbin, Dairen, Tientsin, Hankow, Shanghai, Tsingtao, Chefoo, Amoy, Swatow, Kowloon, and Canton, (2) towns "opened to trade" including a considerable number in Manchuria, and several in Shantung, Mongolia, and Tibet, (3) "ports of call" some for passengers and cargo, and some for passengers only, of which there are

³² Customs offices are not confined to these "stations."

a number of so-called "Yangtze stations" (on the great central river of China), and an even larger number of so-called "West River Stages" (on the important river of the southeast)

Foreign Post Offices China has a Government postal system, including nearly 10,000 post offices, the administration of which contains partly foreign personnel and since 1911 has been under the Ministry of Communications. In 1898 an agreement with France provided that "when the Chinese Government organizes a definite Postal Service and places a high functionary at its head, it proposes to call for the help of foreign officers, and declares itself willing to take account of the recommendations of the French Government in respect to the selection of the Staff", and the "Co-Director-General of Posts" subsequently appointed was a French national. In 1914 China joined the Postal Union.

A number of foreign post offices were also established. Of these Japan had the greatest number, followed by Great Britain, France, Germany, and Russia. The United States had one, at Shanghai. These foreign post offices were charged from time to time with being used for improper purposes, such as the smuggling of opium, the introduction of seditious literature among the Chinese people, and the evasion of import duties on small shipments.

The Tariff While all the "treaty powers" receive equal treatment in the levying of Chinese tariffs on foreign trade, the administration of the customs occupies a peculiar status. After the native administrative system broke down in 1853 (Taiping Rebellion), the administration at Shanghai was taken over by foreign merchants but was later placed in the hands of the American, British, and French consuls, from this arrangement there ultimately evolved a system of Chinese administration, with a considerable number of for-

foreign employees and officials. In this administration the British came to predominate, and by unilateral Sino-British agreements of 1896 (on the occasion of a loan upon customs security) and 1898 and 1906, the Chinese Government gave assurances that during the currency of the said loan (until 1932) and "in view of the evident preponderance of British trade with China," the Inspector-General should continue to be a British national.

The World War wrought many changes in the respective shares of western nations in China trade, and the fact that a considerable proportion of this trade is transshipped at Hongkong exaggerates the British share, but there is no means of making an exact analysis of the ultimate points of origin and destination of Hongkong transshipments, and it is to be noted that China is not definitively committed to give predominance in her customs administration to any other nation even should its share in the trade come to preponderate.

By and since the Boxer Protocol of 1901 China had been permitted a 5% ad valorem import and export tariff on foreign trade, but in 1902 for convenience in administration the schedules were converted, with a few exceptions, to "specific ones" on the basis of 1897-99 prices, and with the great fluctuation in price levels in later decades these came to be much below the allowable 5%. A revision was, therefore, ratified and became effective August 1, 1919, these new schedules, largely specific, and based on 1912-16 price levels gave China increased foreign trade tariff rates more nearly approximating the original 5%, although the level probably remained appreciably less than that percentage. A revision two years after the war was promised, in order to allow for changed price levels, and this was not made. The American treaty of 1903 and the British one of 1902 promised China that when she abolishes "likin" taxation and all

other duties on foreign goods in transit and surtaxes on imports of foreign goods and exports of native goods, these "powers" would agree to an increase of the Chinese tariff to a point not exceeding $7\frac{1}{2}\%$ ad valorem

The following additional facts concerning China's trade taxes should be noted (1) There has been by special agreements a one-third reduction of customs taxes on goods entering by the land frontiers from certain adjacent Russian, British, and French territories, and this right was claimed by the Japanese for the Chosen frontier, although the arrangements had not been intended to extend to traffic by rail. (2) Imports and exports may be forwarded to or from the interior upon payment of a "transit tax" of $2\frac{1}{2}\%$ in addition to the regular duty percentage, and this payment, upon proper registration, technically exempts such goods from the numerous "likin" taxes imposed locally along the interior trade routes (3) Imported goods may be forwarded from one "treaty port" to another under "exemption certificate," without repetition of the payment of regular customs duty (4) At several ports, surtaxes of 2 to 7% are levied for purposes of local public works, such as "conservancy taxes" for harbor improvements

Industrial Property Rights The situation in China with respect to trade-marks, patents, and copyrights is unsatisfactory American and other nationals may, through their consulates in China, apply to Chinese authorities for *provisional* registration of trade-marks, patents, and copyrights, with the Customs authorities at Shanghai and Tientsin, but this privilege is available in the case of copyrights only for works prepared for the use and education of the Chinese people, such provisional registration involves no ~~guarantee~~ of protection The Sino-American Treaty of 1902 and the United States-Japan Treaty of 1903 contemplated arrange-

ments for the protection of patents and trade-marks, but the proposed regulations drawn up by the Chinese Government at various times and submitted to the diplomatic body for approval have not been acceptable to the United States, being based on the principle of mere priority of registration, with the danger of legitimizing piracies, rather than on the principle of priority of use in China. The present practice is therefore one of provisional registration, through a consulate, with the Chinese Maritime Customs, but this affords protection to both legitimate rights and fraud, and its full legal status has never been determined. Beginning in 1905 the various powers have concluded arrangements between each other for the mutual recognition of these and similar rights of industrial property of their nationals in China. The United States is party to such agreements with Great Britain (1905), Germany (1905), France (1905), Italy (1905), Russia (1906), Belgium (1905), the Netherlands (1905), Japan (1908), and others. However, under these arrangements inventions, trade-marks, and copyrights must have been registered in the country of one of the nations party to the agreement in order that they may obtain recognition and protection in the extraterritorial jurisdiction of the other party in China. Thus, for example, American trade-marks must be registered in Japan in order to receive Japanese recognition in China. This complication has led in practice to many infringements in China.

Foreign Corporations Foreign firms may incorporate in China under Chinese corporation laws, which do not discriminate against foreign capital, the law of 1904 simply providing that "should foreigners make application for shares in a company established by Chinese they must agree to observe the Chinese Commercial Laws as well as the Regulations of the Company." The only particular restriction

appears in Article 4 of the Mining Law of 1914, which provided that any national of a "treaty power" "may cooperate with citizens of the Republic of China in securing the right to mining enterprises provided that he is willing to observe this law and other laws relating to the subject. But the shares taken by a foreigner shall not exceed one-half of the whole number." However, "neither of the Chinese laws above referred to" has "been accepted by the Treaty Powers," and "China has, by treaties, undertaken to enact suitable laws which make provision for mining development with the assistance of foreign capital", furthermore, "the right of nationals of the Treaty Powers to hold stock in Chinese corporations is secured in the Anglo-Chinese Treaty of 1902, and the Sino-Japanese Treaty of 1903." The Chinese Government, by Article IV of the American Treaty of 1904, reserved the right to "levy such other taxes as are not in conflict with its provisions," but it does not impose an income tax on either individuals or corporations, although foreign corporations are subject to a kind of royalty, called "pao-hao," on establishments maintained outside the "treaty ports."

In practice most foreign firms, at least the more prominent ones, have preferred to incorporate under the laws of their own countries, in order to gain prestige and a certain position in the extraterritorial jurisdiction in China. In the case of American firms they formerly incorporated under the laws of some one of the states of the United States, although in 1917 it was decided by the United States Court for China that such firms could incorporate there under the corporation law of 1903 for Alaska. Later a "China Trade Act" was passed by the American Congress to provide for such incorporation.

British firms have the advantage of incorporating under

the Hongkong Ordinance of 1911, which in 1915 was extended to cover British corporations under the jurisdiction of the British Consul-General at Shanghai and the British Courts in China. American and other firms (including Chinese) had also been incorporating under these Ordinances, but an Order in Council of 1919 barred firms not predominantly British from the privilege, and ultimately led to the American China Trade Act. One of the principal advantages which British corporations enjoy under the Hongkong system is freedom from corporation income and excess profit taxes. Japanese corporations in China, it is understood, enjoy similar privileges.

The Position of Foreign Enterprise: Concessions and Loans. In addition to the economic advantages in China which certain foreign nations have enjoyed by reason of the general arrangements outlined above, it should be noted that certain of them have special facilities for economic access, by reason of business development, and specific business concessions.

Thus the British have a predominance in shipping, commerce, telegraph communication, and banking, and possess Hongkong as a commercial entrepôt. The French have some advantage in the South, by reason of the proximity of French Indo-China, though this is small. The Portuguese have Macao, but their trade with and enterprise in China is relatively so insignificant as to make this possession a negligible economic factor. The Russians have the access gained by the Trans-Siberian and Chinese Eastern Railway system. Above all, the Japanese now have special facilities for economic access to China, their shipping and telegraphic communication are important, they have a commercial and banking foothold probably second only to the British, and they have the gateways of Chosen, the Kwangtung Leased Ter-

ritory, and Shantung The special access of Japan and Great Britain makes economic competition in China somewhat difficult for other nations

Foreign business concessions and loans³³ occupy a peculiarly significant and basic place in Chinese national economy and international relations The economic instability of Chinese government in modern times has been such that "it is in a sense true that the international status of the Chinese Government is determined and conditioned by its business contracts with individual firms or syndicates, scarcely if at all less than by its formal treaties with other governments It is at any rate seldom that any international situation relating to China can be fully understood without reference to the intricate fabric of quasi-public as well as of public obligations which qualify the freedom of action of the Chinese Government"³⁴

Among the many and various specific concessions in China the "control" takes various forms, it may be by a loan under which the enterprise when completed will be the security, or by providing for supervision of construction, or for the purchase of equipment, or for supervision of accounts, or for management of operation, or for operation, or there

³³ For official documents, and general works, *vide supra* For special works, *vide ff* — On mining Collins, Wm F, *Mineral Enterprise in China*, N Y, 1918 On railways (1) Kent, Percy H, *Railway Enterprise in China*, London, 1908, (2) Stringer, Harold, *The Chinese Railway System*, Shanghai, 1922, (3) *The South Manchuria Railway Co, Its Origin, Development, and Phenomenal Rise to Importance*, pub by the Co, 1922, (4) China, Ministry of Communications, (a) *Statistics of Railways*, annual, (b) *Railway Loan Agreements of China* (printed in Chinese), (c) *Tables Showing the Various Obligations of the Ministry of Communications* Calculated up to January 1923 On finance (1) Huang, Feng-Hua, *Public Debts in China*, Columbia University Press, 1919, (2) Overlach, Theodore W, *Foreign Financial Control in China*, N Y, 1919, (3) U S Department of Commerce, *Currency, Banking, and Finance in China* (by Lee, F E), T P S No 27, 1925

³⁴ MacMurray's *Treaties*, Introduction.

may be actual ownership. In practically all cases, the consideration is an advance of funds by foreign interests. In cases of Sino-foreign enterprise, "in practice the foreign element predominates." It is difficult to give specific classification to the concessions by nationality, because (1) many enterprises are joint (for example, French and Belgian); (2) in some cases a concession has been given to interests of one nationality and later passed to those of another, (3) concessions in China are legion, and no absolutely comprehensive information regarding them is available, even in China.

Industrial Concessions. Since China is as yet only slightly "industrialized," and since foreign enterprise apparently prefers investments of the extractive type, industrial concessions, using the term in the narrower sense, have been relatively few in number and small in importance. Foreign manufacturing industry, like foreign trade, has tended towards confining itself to the open ports. Within the foreign residential areas in the chief cities, certain minor industrial franchises, of the municipal type, exist. In 1913 the Banque Industrielle de Chine, a Sino-French bank with French control, concluded an agreement with China providing for a loan of 150,000,000 francs, to be used for the construction of harbor works, wharves, warehouses, and similar "utilities" at Pukow, which is on the Yangtze River and is the southern terminus of the Tientsin-Pukow Railway, and to a limited extent this construction was effected. The agreement also included a concession for the construction of waterworks, an electric light plant, tramways, and other municipal works in Peking, but these concessions were ~~contested~~ by native companies which claimed prior franchises, although the Banque Industrielle³⁵ still maintained

³⁵ This bank later failed, though this would not invalidate the claim.

its claims. During and since the World War, the scarcity of western capital in China has given Japanese capitalists greater opportunity, and it has been reported that the "Chosen-Taiwan-Industrial group of Japanese banks has taken the leadership in industrial loans in China, receiving in return valuable concessions, of which the most important so far is the exploitation by a Sino-Japanese Company under Japanese supervision of the large and valuable forests of the Provinces of Kirin and Heilungkiang, in northern Manchuria." In 1920 there were reports of the formation of a British-China Trading Corporation with a concession for trade and general enterprise outside the "open ports" of China. The most significant foreign industrial "interest" actually existing in China today is the Japanese one in the Han-Yeh-Ping iron and steel enterprise.

Mineral Concessions. Leasing rights in China, outside the "treaty ports," are not available to foreigners except by concessions, of the latter³⁶ there have been an extremely large number in the field of mining, although many are obscure, and many have not resulted in important enterprises. In 1914 the Chinese Government promulgated elaborate mining regulations which, among other things, as noted above nominally required that in case of joint enterprises with Chinese subjects, at least half the capital should be Chinese, later iron mines were excluded from the operation of these regulations. The Chinese Government has a special tax interest in certain minerals such as salt, and has bought out a number of foreign interests. The 1914 Mining Regulations stated that "salt and kerosene oil shall be exploited only by the Government."

A favorite foreign investment method has been to make contracts with Chinese mining companies for the exclusive

³⁶ Collins, *op. cit.*, esp. pp. 55-143.

purchase or sale of their output, thus providing virtual foreign control and usually a monopoly of sales of machinery to the companies. The British and French have predominated in mining concessions in the Central and South regions, the Japanese and Russians in the North, but the British and Japanese have been most successful of all. The greatest foreign interests in China mining are in (1) Fushun Collieries in Manchuria (Japanese), (2) the Han-Yeh-Ping Company (iron and steel and coal, Japanese loans and special arrangements), (3) the Peking Syndicate (Sino-British, with a heavy French share); (4) Kailan Mining Administration (coal) (Kaiping) (predominatingly Belgian capital and British administration).

The Han-Yeh-Ping Corporation (the Hanyang-Tayeh-P'inghsiang Iron and Steel Enterprise) (with its coal and iron mines and its steel plants) is perhaps the greatest industrial organization of China. It is ostensibly a Chinese concern, begun as early as 1890, but it has received numerous foreign loans, including one in 1910 from the Russo-Asiatic Bank, and among these the twelve Japanese loans from 1902 to 1913 have predominated. As security or consideration for these the Japanese have obtained not only mortgages on plants, but priorities of supplies (as of iron, so much needed in Japan), price concessions, and other forms of control. The "21 Demands" of 1915 as noted above included demands for virtual control of the concern and monopoly in certain regions of operations by the Japanese Government. The Japanese have built at Tayeh modern blast furnaces to treat the ore coming to them under contract. Innumerable other mining concessions have involved ~~almost~~ every major mineral and the capital and enterprise of Japan, Great Britain, Belgium, America, and many other countries.

Telegraph Concessions The chief foreign companies operating cables have been (1) The Eastern Extension, Australasia and China Telegraph Company, British, (2) The Great Northern Telegraph Company, Danish, (3) The Deutsch Niederlandische Telegraphen Gesellschaft, German-Dutch, (4) The Commercial Pacific Cable Company, American. The British Company and the Danish Company, with their extensive facilities and cable connections, predominate in the business. These companies operate under concessions of various dates, for example, the Great Northern (Danish) and the Eastern Extension (British) concluded agreements with China in 1896 and 1900, the Eastern Extension concluded one in 1901, and the Great Northern concluded ones in 1897, 1899, and 1902. However, in 1911 the Great Northern and the Eastern Extension Companies advanced a loan to the Chinese Telegraph Administration "for the immediate development of telegraphs and telephones", and in 1913 an agreement between the Chinese Government and these two companies to run to 1930 contained a clause to the effect that "no other party will be allowed without the consent of both the said parties to land telegraph cables on the coast of China and islands belonging thereto, or work such cables in connection with the Chinese land lines or otherwise to establish telegraphic connections which might create competition with or injure the interests of the existing lines belonging to China or the cable companies". In 1918 a Japanese banking syndicate made a five-year loan of yen 20,000,000 to the Chinese Government, for which the security was to be "all the property and revenue of telegraph lines throughout the Republic of China," and by which the syndicate was to be consulted in case of "future foreign loans in connection with the telegraph lines".

There are also foreign telegraph companies which have

wireless plants or concessions in China. In 1918 an agreement between the Chinese Government and the Mitsui Bussan Kaisha, Japanese, provided for the erection in China of a wireless station capable of overseas communication, and a supplementary agreement of the same year, apparently without consideration and for some time not made public, stipulated that "during the term of thirty years no other party shall be allowed to erect a similar wireless station for communicating telegraphically with Japan, Europe, and America," and that "neither may the Chinese Government itself erect an installation." In 1919 the British Marconi Wireless Telegraph Company signed an agreement with the Chinese Government, by which the latter agreed, if the goods be not lower in quality or higher in price than those offered by other companies, to "purchase exclusively" from this British company, "all its present and future requirements in wireless telegraph and telephone apparatus, materials and supplies." In early 1921 the Federal Wireless Telegraph Company, an American concern, signed a contract with the Chinese Government for the erection and operation, as a joint enterprise with the Chinese Government, of a principal wireless telegraph station at Shanghai, and secondary stations at Harbin, Peking, and Canton. The British, Japanese, and Danes protested on the grounds of prior and exclusive rights obtained by the British Marconi, the Japanese Mitsui, and the Danish Great Northern concessions just described, but the American Government supported the American company's contract, in language reaffirming its stand against monopolistic concessions and "for the Open Door in China."

Waterway Concessions Most of the so-called "conservancy" schemes for the improvement of China's harbors, rivers, and canals are based upon impartial arrangements

for Conservancy Boards on which the "Treaty Powers" participate, although to some extent the foreign engineers in charge of particular improvements have some opportunity to arrange for the purchase of supplies of a type produced in a particular foreign country, and it may be remarked further that a number of bridges have been constructed as auxiliaries to foreign railway enterprises. Thus in 1913 a Sino-French concern obtained a concession for the construction of harbor works at Pukow, and of a bridge across the Yangtze to connect Hankow and Wuchang.

Railway Concessions The contest for concessions in China has centered about railways more perhaps than any other type of enterprise, because of the supposed profitability of their construction and operation and because of the incidental but very significant opportunity of selling equipment. In 1898, the year of the so-called "battle of concessions," the Chinese Government issued new mining and railway regulations which provided that railways, irrespective of the amount of foreign capital involved, should remain under the control of "Chinese merchants." But "these provisions . . . have not been enforced." At present the Ministry of Communications has jurisdiction over those lines which are under so-called government operation and control. Since 1911 the new Republican Government has been continuing the earlier attempt to "nationalize" the railways, that is, to bring them under the control of the central government, and with some success. However, there are many foreign railways, and most of the so-called government railways involve some form of foreign interests. The chief railway systems are (1) in the north seven lines radiating south, west, and north from Peking and Tientsin and connecting with Manchuria, (2) two central lines out of Shanghai, connected by ferry at Pukow with the Tientsin-Pukow

Railway, and (3) the partly completed Canton-Hankow Railway, expected ultimately to connect by ferry at Hankow with the Peking-Hankow line. The British, French, Russians, Belgians, and Japanese have predominated in the Chinese railway situation. On account of the efforts of the Chinese Government to check further foreign control of railways, there is some tendency on the part of foreign interests to use concessions for mining and other industry as a subterfuge for acquiring rights to build and operate railways ostensibly as industrial railways.

Foreign Loans It is a significant fact that the Chinese Government has been largely unable to obtain sufficient native capital, and has therefore had to resort to foreign money markets and to contract almost innumerable foreign loans, many of these have pledged as security various chief sources of China's revenue, such as the customs and the salt tax, while others, probably the majority, have involved the concessions described above. They frequently have been conditioned by the spheres of interest claimed by various powers have sometimes carried options for certain future loans, have sometimes involved some administrative supervision of the sources of public revenues pledged as security, and, in the case of mining and railway concessions, have almost invariably involved control of construction, purchase of equipment, management, or operation, or all of these. In many cases, especially in earlier decades, China has received much less than par, say 94, while the foreign syndicate has floated the loan at slightly less than par, say 99, and has enjoyed the differential profit in addition to interest and advantages of some type of control. The private foreign banking interests making these loans have usually received the diplomatic support of their governments. Indeed, certain selected concerns have been quasi-public agencies of the respective

foreign "Powers" Thus the Japanese loans usually have been made through the Yokohama Specie Bank and a syndicate composed of the Bank of Chosen, the Bank of Taiwan, and the Industrial Bank of Japan, the British loans through the Hongkong and Shanghai Banking Corporation, and the British and Chinese Corporation, a combination of the former with the trading firm of Jardine, Matheson and Company, the Russian loans through the Russo-Asiatic Bank; the French through the Banque Industrielle de Chine, the German through the Deutsch-Asiatische Bank, the Belgian through the Société Belge d'Etudes de Chemins Fer en Chine, and the American loans through a banking group composed of such concerns as J P Morgan and Company, Kuhn, Loeb and Company, the International Banking Corporation, and Lee, Higginson and Company The loans have been classified as (1) war and indemnity loans; (2) general or administrative loans, (3) industrial loans, including mines, railways and all such types of enterprise, (4) relief loans. No complete record of all loans exists

The Consortium. In 1910 a Consortium was established by the United States, Great Britain, France and Germany for international cooperation in loans to China, and later Russia and Japan were admitted, the scheme of organization was that of private national groups of banking interests, operating with the approval of the respective governments In 1911 a loan of £6,000,000 was made for the initial construction of the Hukuang Railways. In 1913 the American Government's support of the American Group was withdrawn In 1918, with a view to assisting China financially in her participation in the World War, the organization of a group of American bankers was undertaken, the domestic conditions being that the group contain represent-

atives of various sections of the country and that the names of the bankers to be included and the terms and conditions of loans made, or to be made, be submitted to the Department of State for approval. Similar groups were then formed in Great Britain, France, and Japan, and representatives of these banking groups met in Paris in early 1919 and drew up a proposed agreement for the approval of the respective Governments. After somewhat protracted negotiations, delayed principally by the unwillingness of Japan to abandon certain reservations relating to South Manchuria and Inner Mongolia, the agreement was finally ratified in 1920, and a further meeting of the four banking groups was held at New York. In brief the principles agreed upon were as follows: (1) the Consortium shall be a free and full partnership, and *all options* as well as *concessions* already held by the several groups, if the enterprises are not "substantially advanced," shall be pooled. (2) The Consortium shall deal only with loans made to the Chinese Government or to its provinces or agencies and involving an issue to the public and a guarantee by the Government or by a Province of China. (3) The Consortium is not concerned with general banking, industrial, or commercial enterprises, but only with those basic enterprises which will serve to establish sounder economic conditions throughout China, these to include the development of transportation and communication, and the reorganization of the currency. (4) The Consortium looks to the best development of China in the interests of the Chinese, and through its agency Chinese securities may be offered to the markets of the member groups with assurance of safety to the bankers, investors, and the Chinese. The Consortium was of limited effectiveness.

THE CHINESE SITUATION AND THE WASHINGTON CONFERENCE

A Conference on the Limitation of Armament, called by the United States, was held in Washington in 1921-22.³⁷ The leading World Powers concerned in the Far East were represented.³⁸ One of the chief purposes of the conference was agreement among the world powers for the reduction and future limitation at fixed ratios of naval armament. Of equal importance, however, was the consideration of the Far Eastern situation, particularly in China, the line of reasoning, as indicated in the report of the American Delegation, being somewhat as follows—peace through naval disarmament, naval disarmament through peace and trust in the Pacific (an important arena of future world politics and economy), and, specifically, peace and trust in the Pacific through the full establishment of Chinese territorial integrity and of the policy of the Open Door and equality of opportunity in China.

The Conference, together with its attendant negotiations, in approaching the Far Eastern problem, dealt with several matters concerning the military situation in China and with

³⁷ For proceedings, including texts of treaties, resolutions, and official statements, *vide Conference on the Limitation of Armament, Washington, November 12, 1921-February 6, 1922*, U S Government Printing Office 1922. For report of American Delegation, *vide Senate Document 125, 67th Congress, 2d session, Conference on the Limitation of Armament, Address of the President of the United States submitting the Treaties and Resolutions Approved and Adopted by the Conference on the Limitation of Armament, Together with the Report of the American Delegation of the Proceedings of the Conference*, Submitted to the President, February 9, 1922. (The texts in this publication are not entirely accurate, but it is valuable for the report of the American Delegation.) For general works on the Conference, *vide* (1) Buell, Raymond L., *The Washington Conference*, N Y., 1922, (2) Willoughby, W W., *China at the Conference*, A Report, Johns Hopkins University Press, Baltimore, 1922.

³⁸ The United States, Belgium, British Empire, China, France, Italy, Japan, the Netherlands, and Portugal.

several non-Chinese questions. For example, a resolution provided that the powers would consider withdrawal of armed forces in China, and another resolution looked toward the reduction of Chinese military forces. Again, official statements promised withdrawal, as soon as possible, from Far Eastern Russian territory, namely from Siberia, including the Maritime Province (Vladivostok, etc.) and Russian Sakhalin. Further, though it was not a matter for general consideration by the Conference, the United States, which had never ratified the Treaty of Versailles and had not entered the League of Nations, and consequently had never recognized the mandates thereby created, during the Conference negotiated with Japan and entered into an agreement with that country in which it agreed to consent to the administration by Japan of the mandated islands in the Pacific Ocean north of the Equator, on condition of certain Japanese guarantees including especially full American cable base and other electrical communication rights in the Island of Yap—an important point in America's Far Eastern cable system.

Most of the Asiatic questions considered at the Conference, however, in one way or another, had to do with China, and all of them had a large bearing on the economic situation there. The principal results of the Conference in that respect may be summarized as follows³⁹

The Four-Power Treaty. A treaty was concluded jointly by the United States, Great Britain, France, and Japan, which provided for mutual respect of their insular possessions in the Pacific, and replaced the Anglo-Japanese Alliance, which was thereby terminated. These powers agreed. (1) to respect each other's rights regarding insular

³⁹ The following paragraphs follow more or less closely, though not verbatim, either the language of the treaties, agreements, resolutions, and declarations, or that of the report of the American Delegation

possessions and dominions in the Pacific; (2) if any controversy should arise out of any Pacific question and involve such rights, and be not satisfactorily settled by diplomacy, to refer it to a joint board for consideration and adjustment, (3) if such rights should be threatened by the aggressive action of any other power, to communicate with each other to arrive at an understanding as to the most efficient measures to be taken, jointly or separately, to meet the exigences of the situation; (4) to have the treaty remain in force for ten years, and thereafter until terminated upon twelve months' notice

An accompanying declaration provided that the treaty would apply to the mandated islands of the Pacific, but without committing the United States to recognition of the mandate system, and that the controversies indicated would not apply to domestic questions such as immigration and the tariff. A supplementary treaty limited the terms "insular possessions" and "insular dominions," in the case of Japan, to Karafuto (Japanese, southern, Sakhalin), Formosa, the Pescadores, and the Japanese mandates, so that the main Japanese islands would not be included.

Non-Alienation of Chinese Territory. China declared her undertaking not to alienate or lease any (further) portion of her territory or littoral to any power.

Wei-hai-wei. Great Britain declared her intention under suitable conditions to hand back Wei-hai-wei (in Shantung) to China.

Shantung and Japan. It has been mentioned above that in 1915 China agreed to assent to disposition of former German rights, interests, and concessions in Shantung, to open Kiaochow Bay and other places as commercial ports, and to permit the establishment of a municipal Japanese, and if desired an international municipal, concession there.

In an exchange of notes in 1918 Japan proposed that the Shantung Railway be operated jointly by Japan and China and be protected by Chinese police under Japanese jurisdiction, but China had not ratified this arrangement. It was also mentioned above that in the Versailles Treaty (Articles 156, 157, 158) Germany renounced her Shantung rights in favor of Japan. Japan at that time declared her purpose to restore Chinese sovereignty in Shantung but to retain the special economic rights above described.

The Shantung question could not be brought before the Washington Conference because a number of the powers represented were parties to the Versailles Treaty, but the British and American Delegates offered their good offices, and the resulting separate negotiations between Japan and China led to the conclusion of the Sino-Japanese treaty of February 4, 1922. The principal provisions were as follows: (1) Japan to return, within six months, the territory and all public properties therein, without charge except for additions and betterments made by Japan. (2) Japanese troops to be withdrawn from the railway line within six months and from the territory within thirty days from the date of transfer to China. (3) The Customhouse at Tsingtao immediately to be made a part of the Chinese Maritime Customs system. (4) The Tsingtao-Tsinanfu Railway to be transferred to China within nine months, the value to be fixed by a commission on the basis of 53 million gold marks (pre-war value as assessed against Japan by the Reparations Commission), the price to be paid in Chinese Government treasury notes, secured on the property and revenues of the railway with a maturity of fifteen years but redeemable in whole or part after five years from date of payment, pending complete redemption of these notes, the Chinese Government to employ a Japanese traffic manager, and a Japanese

as one of the two joint chief accountants, under the authority and control of the Chinese managing director. (5) The rights in the construction of the two extensions of the railway, reserved in 1914 for German enterprise and subsequently granted to a Japanese syndicate, to be opened to the activities of an international financial group on terms to be arranged between China and the group. (6) The coal and iron mines formerly owned by the German railway company to be handed over to a company under a special charter from the Chinese Government, in which Japanese capital may participate equally with Chinese. (7) Japan to relinquish claim to the right to establish an exclusive Japanese settlement in the territory, and China to open the whole of the territory to foreign trade. (8) China to have the privilege of purchasing the salt fields hitherto operated by Japanese subjects and to incorporate them in its governmental salt monopoly, but to permit salt exportation to help meet the salt shortage in Japan. (9) Japan to relinquish to China all claims in the Tsingtao-Chefoo and Shanghai cables, except such portions as were utilized by Japan during the World War for the laying of the Tsingtao-Sasebo Cable. (10) Japan to transfer to China, for fair compensation, the wireless stations at Tsingtao and Tsinanfu. (11) Japan to renounce all preferential rights regarding foreign assistance by way of persons, capital, and material stipulated in the Sino-German Kiaochow Convention of 1898.

The Twenty-one Demands. The Sino-Japanese treaties and notes of 1915 were discussed. No conference treaties or resolutions resulted, but official statements were made. The Chinese Delegation argued the legal and moral invalidity of the treaties and notes, their conflict with the rights of others powers in China, their contradiction of Chinese territorial integrity, and their violation of the principle of equal-

ity of opportunity and the Open Door The Japanese Delegation viewed them as irrevocable, but made a declaration as follows (1) Japan had no intention of insisting upon her preferential right, under the treaties, concerning employment of Japanese advisers in South Manchuria (2) She was ready to withdraw her reservation that Group V (regarding land-holding, schools, Japanese advisers, etc., throughout all China) be the subject of further negotiations (3) She was ready to throw open to the joint activity of the International Financial Consortium the option granted exclusively in favor of Japanese capital regarding loans secured on taxes there, though nothing in this declaration should annul the original terms of the Consortium (4) The Shantung problem had already been solved at the Washington Conference (5) (In a later statement) Japan reaffirmed her adherence to the policy of the Open Door in China and her intention to seek no territory or preferential rights in China

Extraterritoriality. In a Conference resolution, Great Britain, the United States, and Japan, recalling that in 1902-3 they had declared their intention to abolish such extraterritoriality when conditions warranted, agreed to establish a commission to inquire into the condition of the Chinese legal and judicial system and to assist China in reforms in those matters, with a view to the relinquishment of their extraterritorial rights there

Foreign Post Offices. A resolution adopted by Japan, Great Britain, the United States, and France agreed upon the withdrawal of their foreign postal agencies in China not later than January 1, 1923, on condition that China maintain an efficient postal service and that no change be made in that service as regards the foreign (French) Co-Director General.

The Customs Tariff. Immediate tariff autonomy for

China was not proposed at the Conference, but an attempt was made promptly to make the existing rates an effective 5%, to pave the way for abolition of *likin*, and to arrange an ultimate increase in Chinese Government revenue from the tariff by allowing surtaxes of $2\frac{1}{2}\%$ on ordinary duties and of 5% on duties on luxury commodities

A Conference treaty on the Chinese customs tariff provided for revision of rates to an effective 5%. By Annex I to this treaty, the United States, Belgium, the British Empire, China, France, Italy, Japan, the Netherlands, and Portugal agreed to a Revision Commission, to meet at Shanghai, and to make such a revision as soon as possible. Other provisions of the treaty were: (1) (Article II) A special Conference of representatives of the signatory powers would later be called to consider abolition of the *likin* and the consequent ultimate possibility of allowing surtaxes of $2\frac{1}{2}\%$ on ordinary duties and 5% on luxuries. (2) This Special Conference to have the power to put such surtaxes into effect. (3) Periodical revisions of import duties to be made every seven years under rules to be laid down by the Special Conference. (4) Effective equality of treatment for all the powers always to be preserved in customs matters. (5) Uniformity of rates of customs duties to be maintained on all Chinese frontiers. (6) The charge for transit passes to be at the rate of $2\frac{1}{2}\%$ ad valorem until the arrangements under Article II should become effective. (7) Other powers having treaties with China providing for the 5% ad valorem maximum to be invited to adhere to this treaty. (8) This treaty to over-ride all other treaty provisions inconsistent with it, except most-favored-nation provisions.

Radio Stations. Conference resolutions regarding radio stations in China dealt rather more with operations than with basic rights of establishment. They provided (1)

Radio Stations of foreign governments ordinarily to send and receive only official messages (2) All foreign radio stations to confine their activities to the terms of existing treaties and concessions under which they operate (3) Any foreign stations maintained without the authority of the Chinese Government to be transferred to that Government. (4) Questions concerning stations in leased territories, the South Manchuria Railway zone, or the French concession at Shanghai, to be questions between the Chinese Government and the government concerned, but this not to be construed as automatically validating the maintenance of all such stations (5) Owners or managers of foreign stations to confer with the Chinese Government with a view to a common arrangement to avoid interference in wave lengths

Chinese Railways. In a resolution, the powers recorded "their hope that to the utmost degree consistent with legitimate existing rights, the future development of railways in China shall be so conducted as to enable the Chinese Government to effect the unification of railways into a railway system under Chinese control, with such foreign financial and technical assistance as may prove necessary in the interests of that system "

The Chinese Eastern Railway. The question of the preservation of the Chinese Eastern Railway and of increasing its technical efficiency was considered Only a general resolution, however, was adopted, favoring the preservation of the railway and expressing the conviction that for the safeguarding of existing foreign interests in it, better protection, greater efficiency and service, and more economical use of funds were desirable, the subject was to be dealt with through regular diplomatic channels. General assent was given to the continuance in force of the railway supervision agreement of 1919 among the several powers. The

powers made statements reserving the right to insist upon the responsibility of China* in the performance of its obligations towards foreign stock and bond holders and other creditors resulting from the contract under which the railway was built, and the obligations in the nature of a trust resulting from the possession and administration of the railway by the Chinese Government

Existing Commitments in China. In four resolutions the conference powers, including China, agreed to file with the Secretariat-General of the Conference copies of all present treaties or agreements of any kind with China or with each other concerning China, copies of these to be transmitted to the various powers, and similarly to exchange copies of future treaties and agreements. It was specified that this should include full information concerning "all those contracts between their nationals, of the one part, and the Chinese Government or any of its administrative subdivisions or local authorities, of the other part, which involve any concession, franchise, option, or preference with respect to railway construction, mining, forestry, navigation, river conservancy, harbor works, reclamation, electrical communications, or other public works or public services . . . or which involve a lien upon any of the public revenues or properties of the Chinese Government or any of its administrative subdivisions." Non-conference powers were to be invited to adhere to this agreement.

The Nine-Power Treaty. The report of the American Delegation stated that "the work of the Conference in connection with Far Eastern matters was largely devoted to the effort to give new vigor and reality to the coordinated principles of territorial and administrative integrity of China and of the 'Open Door' or equality of opportunity for all nations in China. These principles have been called co-

ordinated, but they are, in fact, different aspects of the same principle" The reaffirmation of these principles was comprehensively expressed in the Nine-Power Treaty regarding China, of February 6, 1922, signed by the United States, Belgium, the British Empire, China, France, Italy, Japan, the Netherlands, and Portugal.

In Article I the powers agreed upon certain fundamental principles as follows: (1) "to respect the sovereignty, independence, and territorial and administrative integrity of China"; (2) "to provide the fullest and most unembarrassed opportunity to China to develop and maintain for herself an effective and stable government"; (3) "to use their influence for the purpose of effectually establishing and maintaining the principle of equal opportunity for the commerce and industry of all nations throughout the territory of China", (4) "to refrain from taking advantage of conditions in China in order to seek special rights or privileges which would abridge the rights of citizens or subjects of friendly States and from countenancing action inimical to the security of such States" The American report said: "Thus were reaffirmed the postulates of the American policy which were no longer to be left to the exchange of diplomatic notes, but were to receive the sanction of the most solemn undertaking of the Powers" In Article II the powers stated they "would not enter into any treaty, agreement, arrangement, or understanding, either with one another, or individually, or collectively, with any Power or Powers, which would infringe or impair these principles."

Article III defined the Open Door. In it the powers other than China agreed: (1) not to seek or to support their nationals in seeking any arrangement which might purport to establish in favor of their interests any general superiority of rights with respect to "commercial or economic develop-

ment" in any designated region of China, (2) not to seek or to support their nationals in seeking any such monopoly or preference as would deprive other nationals of the right of undertaking any legitimate trade or industry in China or of participating with the Chinese Government or with any local authority in any category of public enterprise, or which by reason of its scope, duration, or geographical extent is calculated to frustrate the practical application of the principle of equal opportunity. The Chinese agreed to be "guided by the same principles in dealing with applications for economic rights and privileges from governments and nationals of all foreign countries." It was specified, however, that this agreement was "not to be construed as to prohibit the acquisition of such properties or rights as may be necessary to the conduct of a particular commercial, industrial, or financial undertaking or to the encouragement of invention and research."

While Articles I and II laid down the general principle to be followed, and Article III specified against monopolies and for the Open Door for foreign economic enterprise in China, Article IV went on to declare further against spheres of influence. In it the powers agreed not to support "any agreements by their respective nationals with each other designed to create spheres of influence or to provide for the enjoyment of mutually exclusive opportunities in designated parts of Chinese territory."

Article V specifically declared against any railway discrimination in China, by the Chinese Government on its railways or by treaty power nationals on railways controlled by them, but this referred to discriminations in charges and facilities on the basis of nationality of passengers or origin, destination, or ownership of goods, or nationality or ownership of the ship or other means of convey-

ance before or after the shipment on the Chinese railway, it did not refer to railway construction rights, which had been fully covered in the preceding articles. Article VI provided for respect of Chinese neutrality in time of war, Article VII for full and frank communication among the powers in case of controversy over the application of this treaty, and Article VIII for inviting other powers to adhere to the treaty. An accompanying resolution provided a procedure for dealing with questions arising, under Articles III and V, among the powers "with reference to their general policy designated to stabilize conditions in the Far East, to safeguard the rights and interests of China, and to promote intercourse between China and other Powers upon the basis of equality of opportunity." There was to be established in China a Board of Reference, the plan for the constitution of which was to be drawn up at a special conference called for that purpose. In referring to the Nine-Power Treaty the Report of the American Delegation said "It is believed that through this Treaty the Open Door in China has at last been made a fact." In the conclusion of that report the view was expressed that limitation of naval armament would not have been possible without the Four-Power Treaty, and that this in turn would not have been possible without a series of clearly defined understandings regarding the relations of the powers with respect to China, and it was stated that "such an understanding had two aspects. One related to securing fairer treatment of China, and the other related to the competition for trade and industrial advantage in China between the outside powers."

After the Washington Conference. The progress of international governmental action in matters of this sort is beset with so many delaying obstacles that it is as yet difficult to appraise the effects of the Washington Conference.

As for specific changes that were indicated by the Conference agreements there has been some progress, as in the Shantung matter. The Commission on Extraterritoriality met in Peking on January 12, 1926, and ended its sessions on September 16, 1926. In its report⁴⁰ it recommended a number of changes in the Chinese judicial system before extraterritoriality should be relinquished by the extraterritorial powers, but also recommended certain revisions pending such abolition, for example it stated that "the nationals of the powers concerned should be required to pay such taxes as may be prescribed in laws and regulations duly promulgated by the competent authorities of the Chinese Government and recognized by the powers concerned as applicable to their nationals." The revision of existing tariff rates to a presumably effective 5% was accomplished fairly promptly. The Chinese Customs Tariff Treaty was ratified by the last one of the signatory powers on July 7, 1925, and ratifications were exchanged the following month, and the Chinese Tariff Conference to consider addition of surtaxes and abolition of Chinese likin met on October 26, 1925. The American Delegates were given power not only to agree on those matters but also "to negotiate a new treaty recognizing China's tariff autonomy."⁴¹ On November 15, 1925, a committee on provisional measures of the conference adopted a resolution for the recognition of Chinese tariff autonomy, for the removal of tariff restrictions contained in existing treaties, and for the going into effect of the Chinese National Tariff Law on January 1, 1929. But progress was delayed partly by the

⁴⁰ U S Department of State, *Report of the Commission on Extraterritoriality in China*, Peking, Sept. 16, 1926, *Being the Report of the Governments of the Commission Appointed in Pursuance to Resolution V of the Conference on the Limitation of Armaments*. Vide esp pp 107-109 for recommendations.

⁴¹ Statement by the Secretary of State of the United States, January 26, 1927.

unavailability of representative Chinese delegates, and the conference ended late in 1926 without having reached any definite agreement⁴² Subsequently there were increasing political and military disturbances in China, endangering foreign nationals and their property, and increasing the difficulty of determining what Chinese faction, if any, was the representative government of that country. Factions in control at certain places collected customs tariff duties at higher rates than those agreed upon by the powers, and growing demands were made by various Chinese factions not only that extraterritoriality be withdrawn and full tariff autonomy (not simply rate increases) be granted by the powers, but that all the so-called "unequal" treaties giving foreign powers special rights and interests in China be abrogated or replaced. Leading treaty powers despatched forces to China for the protection of their nationals and nationals' property and at the same time issued assurances of sympathy for China and a willingness, under appropriate conditions, to replace the "unequal treaties" with ones of the ordinary "commerce and amity" type existing between the Western powers themselves. Whether the supposed awakening of Chinese nationalism will result in sufficient unification in China to bring about a throwing off of the entire

⁴² According to a later statement by one power, the lack of agreement, so far as the non-Chinese powers were concerned, was partly due to the fact that certain powers "were not satisfied with the assurances which the Chinese delegation offered . . . as to the purpose to which the Chinese Government would themselves devote the proceeds of the surtaxes. They were prepared to grant them only upon conditions which ensured that the proceeds would be placed under foreign control and applied—in great part—to the liquidation of the unsecured debt." This statement went on to assert that the British Government was opposed to this plan for debt consolidation and to any consideration of the unsecured debt by the conference. *Vide British Memorandum* forwarded, December 25, 1926, to the treaty powers, made public by the U S Department of State, per *U S Daily*, January 27 and 28, 1927.

system of special foreign rights and interests there, is impossible to predict, but such a complete development seems unlikely

Regardless of such possible events, however, certain facts seem clear. This whole special system that has grown up there may have taken the form it has because of the political and military instability prevailing in China, but in essence it has been a group of special devices for obtaining advantage for foreign economic enterprise. This process, in turn, is explained by the kind of economic conditions prevailing in China and by the types of national economies possessed by the powers most active. To mention but one example, Japan in recent decades has been rapidly undergoing a process of industrialization not greatly unlike that which had previously set in in Great Britain and which so largely came to characterize her economic structure and to determine her foreign relations. Consequently, it has not been and will not be economically unnatural for Japan, with her limited resources and her developing manufacturing industries to look to continental Asia, not only as a market for her surplus production but also especially as a source of various essential commodities such as certain foodstuffs, certain types of coal, and the materials for steel-making, and a field for the industrial activities of her business interests, and to pursue this object not alone by trade but as well by the extension of her enterprise. On the other hand, despite minor beginnings of industrialization of her own, China is and doubtless will long remain a non-industrialized country, her economic conditions inviting the activity of foreign enterprise. Whether such activity will be carried on in one way or another is not the most basic question from the economic viewpoint. The accomplishments of the Washington Conference and a possible development of Chinese national-

ism and unity may result in a system under which that activity will proceed in a manner not involving monopolistic and unfair advantage to the interests of any one power and perhaps more free from a régime of special restrictions upon China herself. The desirability of the Open Door and the integrity of China can not be questioned. The essential point here, from the viewpoint of international economic relations, is that, however much its legal or other form may ~~vary from time to time~~, the non-industrialized economic conditions existing in China and the industrialized national economies of certain of the powers are likely for some time to come, and unless and until China shall have become more or less thoroughly industrialized, to cause a continuation of certain important kinds of activity of foreign enterprise there. For it is thus that the industrial structures of different regions, in varying forms and under varying policies, play their part in the determination of international relations and account for the interlocking of the parts of the world economic structure.

CHAPTER XI

NATURAL RESOURCES AND NATIONAL POSITION

THE INTERDEPENDENCE OF NATIONS FOR ESSENTIAL MATERIALS

IT IS obvious that the economic position of a nation, while dependent upon many different factors, including supplies of labor and of business capital, is greatly, and in the first instance chiefly, conditioned by its quota of natural material resources. This becomes especially important in the case of the leading nations, or economic "powers". These nations in most instances have posited their economic development in modern times upon possession of such resources. For example, coal and iron were originally available in practically all of the present principal industrialized countries. But these countries have by their very industrialization tended partly to exhaust such resources, or to evolve an industrial system which has finally outrun their own production of such raw materials or which has expanded in such a diversified way as to necessitate the importation of other types of materials.

This growing interdependence of nations for supplies of essential materials is due to several factors. In the first place, there is the obvious and fundamental conditioning of national economies by natural geographic facts and forces, as

noted above in the chapters on "The Geographic Factor," "National Economies and World Economy," and "The National Economy of the United States" A nation either has or does not have certain mineral deposits Further, although it is sometimes asserted that any organic material is reproducible (which may be true in an absolute sense of physical possibility, but often is not true in a practical economic sense), a nation either has or does not have soil and climate and topography permitting the production of certain organic materials But the special reasons why this interdependence based upon territorial division of labor in the production of basic supplies is constantly increasing include both the fact that territorial division of labor in the fabricating and even the converting industries tends also steadily to increase, and the significant fact that, as the industrial revolution continues to run its course in an accelerating way, there is a constant increase in the variety of materials needed. This latter fact will be commonly admitted, but it is not often sharply recognized Yet a careful survey of the important industries of the present time reveals a surprising number of them that are of first rank which are only one or two or three decades old In other words, the industrial revolution consists, not alone of constantly improved mechanical and economic devices for the increase of industrial efficiency, but equally of a constant addition to the list of materials which are converted to economic use Indeed, to a large extent the advance in material civilization, with the resulting rise in the so-called standard of living, may be measured in terms of the variety of articles available for consumption and of a largely parallel variety of materials used in creating these articles While there are, then, undoubtedly cases both of greater diversification in the products of a single raw material, and of decentralization and diversification in the ter-

territorial division of labor, the trend remains largely one of growing territorial specialization in production and, particularly significant, of increasing variety of types of materials necessary in the industrial system. Moreover, there is the steady increase in the number and efficiency of the commercial, shipping, and financial facilities for widespread interchange of products. All these developments are those which account primarily for the increasing interdependence of countries for supplies of essential materials.

This phenomenon, as just indicated, has already been analyzed in its broader aspects and in its various ramifications in earlier chapters, but it is important to touch upon it here in a more immediate and specific way, especially as a basis for consideration of the international problems of raw material controls which will be dealt with in succeeding chapters. Illustration of this matter of national resource status may be found by reference to the accentuated British case, to other cases of leading economic powers, and, more particularly, to the case of the United States, whose national economy is undergoing the interesting evolution traced in an earlier chapter, and whose growing dependence for essential materials as a result of its industrialization was not until recently fully realized but has latterly become the subject of popular attention and governmental concern.

The United Kingdom, as just noted, furnishes the leading case. It still has a surplus of coal, which it normally exports, but its consumption of iron has outrun its production, and it must also import cotton, wool, non-ferrous metals, lumber, hides and skins and leather, rubber, petroleum, grains, and meats, and many other essential materials for manufacturing and food consumption. The country of the most concentrated industrialization in the world, it is most dependent of all nations upon the resources of its colonial

possessions and other countries. Germany and France are somewhat less dependent in certain respects, but their economic position rests very considerably upon foreign resources, and incidentally they have been at least potentially dependent upon each other as illustrated by France's deficit of coal and surplus of iron. Belgium affords a further case of the resource dependence of an industrialized nation. Italy's secondary position in industrial development, when compared with the prime position of other leading countries, may be a result of many factors, but not least of these has been a lack of coal which is now only partly offset by developments of native water power. Japan's position is in some respects similar to that of the United Kingdom. It has sometimes been called, economically, "the Britain of the East." Its dependence for certain types of coal, for iron, cotton, certain amounts of rice, and many other principal materials, is fundamental.

The extent to which such dependence of the industrial powers upon external resources has conditioned their foreign policy is an interesting matter. It has been expressed not only in trade policy, as in the tariff, but in financial and other policies, and it undoubtedly has had considerable influence upon empire policies, as in the British case; and it serves to explain many of the Japanese economic and political activities on the mainland of Asia, including government support of Japanese affiliations with the Han-Yeh-Ping coal and iron and steel company in China, and innumerable concessions to Japanese enterprise there. Resource dependence of the leading economic powers, in fact, underlies much of international policy not only with respect to trade, shipping and finance, but also with regard to concessions, spheres of influence, and colonies and other phenomena of modern empire.

Such a conception is sometimes gainsaid, with the statement that resources do not influence the policies of nations because "governments have no economic intelligence." But this view is scarcely borne out by an examination of the details of international economic relations. It is true that it is a mistake to look upon the relations of nations as a vast struggle for resources. Indeed, it may well be contended that the interdependence of nations in matters of resources as in other economic ways, while to a degree productive of rivalry—competition is one essential feature of the economic order, national and international—effects much less friction than it does accord arising from both mutuality of interests and compensatory character of unlike interests. It is the nature of business interests everywhere to compete but equally to cooperate, for interdependence clearly necessitates the latter as well as the former.

However, reverting to the particular matter of national resources, there is considerable evidence not only that the business interests of the various countries naturally seek essential supplies abroad, but also that the governments of the powers not only support those interests but even officially "take stock" of their resource possessions. This stock-taking was particularly induced by the nationalism of the World-War period. Many phases of that conflict had pivoted upon essential supplies, and about this the whole system of war-trade control had centered. Inventories, therefore, looking to the postwar period, were natural.

THE BRITISH POSITION

A leading example of this, on an imperial rather than a merely national basis, is found in the surveys of certain British commissions, such as the Dominions Royal Com-

mission and the Imperial Institute¹ The former made the following summary of the resource position of the British Empire²

Materials of which the World's Requirements are Mainly or Wholly Produced within the Empire. We doubt whether it was realized before the war, that the Empire had substantially a monopoly of the world's production or distribution of certain most valuable commodities of commerce Even if the fact were dimly recognized, no effort had been made by the Governments of the Empire individually, or in cooperation, to use these commodities to their commercial advantage Canada produces much the largest proportion of nickel, cobalt, and asbestos, and in conjunction with India, of mica

New Zealand produces practically the only supply of Kauri gum and phorium fiber.

The Union of South Africa has the virtual monopoly of diamonds and ostrich feathers

India has a monopoly of jute, whilst the West African Colonies yield the major portion of the world's supply of palm nuts and palm kernels, and the Eastern Colonies of plantation rubber

The British Empire produces about 40 to 45 per cent of the world's total supply of wool If merino wool only is taken, the proportion is much higher The Empire also produces over 60 per cent of the world's output of gold

Materials of Which the Empire's Requirements Are Approximately Equalled by Empire Production The second category embraces many staple foodstuffs and commodities of which the production is widespread both in the Empire and elsewhere In many cases the position is that whilst the Dominions are self-supporting, the United Kingdom is not Wheat, meat, butter, wool, and cheese are examples of this kind

Articles Mainly Produced and Controlled Outside the Empire. It is in this group of articles that the possibility of economic pressure from foreign countries controlling supplies of raw materials requires especially to be provided against, and that Gov-

¹ Imperial Institute, London Mineral Resources Commission (reports on mineral resources with reference to the British Empire) Also, Imperial Mineral Resources Bureau, London, annual reports

² Report of the Dominions Royal Commission on the natural resources, trade, and legislation of certain portions of His Majesty's Dominions, London, Cd 8462. *Vide* also Appendix, *infra*

ernment action is most needed in order to promote economic independence. In our opinion no general remedy applicable to all classes of goods exists, the action needed must vary in character with each article and the precise line to be taken in each case can only be suggested to the Governments interested after careful examination by the best expert authorities.

THE POSITION OF THE UNITED STATES

The resource position of the United States has been one of unequalled variety and abundance. Economically this country has been an empire within itself, and upon possession of remarkably large supplies of coal and iron, and numerous other metals, of timber, of petroleum, of cotton and other agricultural materials for fabrication, and of great quantities of grains and meats and other foods, it has expanded its population and developed a system of secondary industries which, in the aggregate, is the largest in the world. Largely for these reasons, in the past there has been little centralized effort at national inventories of resources. But at present the exceptions to its large degree of resource sufficiency are coming to be more sharply realized and a summary consideration of its resource and consequent industrial position is of interest.

THE SHARE OF THE UNITED STATES IN WORLD PRODUCTION

While there exists no official or authenticated computation of the share of the United States in total world production of the various groups of material products, some general estimates have been made. According to one of these,³ reduced to terms of dollars, the total net value of the annual material production of the world in recent years has

³ Huntington, E., and Williams, F. E., *Business Geography*, N. Y., 1922, pp. 14-15.

amounted to approximately 140 billion dollars, of which food products constituted at least 59 billion, non-metallic raw materials at least 10½ billion, fuels and other sources of power at least 10 billion, and metals nearly 3½ billion, making a total for primary products of more than 82 billion, or, allowing for minor products, perhaps 90 billion, with the value added by manufacturing amounting to approximately 50 billion. Incidentally, to the extent that this rough estimate is an index to the actual situation, it indicates (1) the much larger value placed by the economic world upon primary products than upon the process of manufacturing and preparing them, (2) the much larger place of foodstuffs than of industrial raw materials, and (3) the overwhelming importance of commodities of organic origin, the total value of the chief metals being computed as less than that of rice alone, and thus the prime dependence of material life and of the other industries of nations upon the basic plant and animal industries, despite the strategic importance of mineral products and the tendency to regard the present age as an "age of metal."

According to the same estimate, the share of the United States has amounted to the following approximate proportions of the world total aggregates: total net value of all material production 26%, food products 19%, non-metallic raw materials 26%, fuels and other sources of power 40%, metals 32%, total primary products 23 to 24%, value added by manufacturing 28%. These percentages are striking. They would indicate that the United States contributes more than a fourth of the world's material production, including nearly a fifth of the foods, more than a fourth of the non-metallic raw materials, over two-fifths of the fuels and other sources of power and the metals, and altogether nearly a fourth of all primary products, as contrasted with more than a fourth of the manufacturing values.

Such an estimate is an extremely rough one. As an indication, however, that it minimizes rather than exaggerates the absolute, if not the relative, proportions for the United States it may be noted that another estimate, apparently made with all possible care by reference to official statistics where available, has set the total gross value of the American output of manufactures for a fairly recent year at approximately $62\frac{1}{2}$ billion dollars, comprising about 40% of the world's total gross output,⁴ as against 30% for the immediate pre-war period. Even allowing for the business depression of 1920-21 and for the gradual recovery of European industry, if the United States' share was 40% in the year indicated it seems probable, in view of the steady American progress in still more recent years, that this American share at least has not fallen far below the two-fifths mark, and has quite possibly increased to a still higher percentage.

However much such estimates may vary, and however much they might be subject to revision were complete and strictly comparable official data available for all countries of the world, they may safely be noted as giving some rough notion of the large place of the United States in the world's industry and, to a large extent, in the world's resources. Properly interpreted they show what is apparent from a more detailed notation of individual resources and industries, namely, the truth of the assertion of its large degree of economic self-sufficiency. But closer examination of the facts discloses more fully that self-sufficiency as well as the importance of the exceptions to it, for American consumption is correspondingly large, and the growing size and diversity of manufactures places a new emphasis on foreign materials.

⁴ Austin, O. P., Statistician of the National City Bank of New York in *The Americas*, June 1921, for the year 1919. Gross value includes both value of materials and value added by manufacture. *Vide* also Appendix *infra*.

THE POSITION AS REGARDS AGRICULTURAL RESOURCES ⁵

Foodstuffs. An official survey of the agricultural position of the United States,⁶ made largely on the basis of pre-war conditions, indicated the highly favorable nature of that position, particularly with respect to foodstuffs. It showed that the United States, even though its population density was much less than that of many other areas, such as the industrialized countries of western Europe, had the greatest total acreage of cultivated land of any country in the world, and that its cultivated acreage per capita was exceeded only by that of Argentina and Canada and approached only by that of Australia; the cultivated acreage per capita in Japan and in the densely settled countries of Europe such as the United Kingdom, Germany, and France, was much smaller.⁷ It further showed that in total calorie value of annual production of leading food crops, the United States had much the largest absolute place, and a per capita production exceeded only by that of Argentina and Canada and not nearly equalled by that of the other industrialized countries.⁸

⁵ Vide U. S. Department of Agriculture, *Geography of the World's Agriculture* (by Finch, V. C. and Baker, O. E.) 1917, Smith, J. Russell, *The World's Food Resources*, U. S. Department of Agriculture, *Agriculture Yearbook*, various years, U. S. Department of Commerce, *Commerce Yearbook*, various years. Vide also Appendix, *infra*.

⁶ U. S. Department of Agriculture, *Geography of the World's Agriculture*, esp. pp. 8-12, also various sections, for data concerning the various products and the resources upon which they depend.

⁷ U. S. 3.5 acres per capita, Argentina 6.3, Canada 4.6, Australia 3.4, as against Japan 0.3, United Kingdom 0.4, Germany 1.0, France 1.5.

⁸ Total calorie value, in millions of calories, of leading food crops produced per annum: U. S. 425,442,000, Russia 300,511,000, India 198,133,000, Germany 143,440,000, France 70,829,000, Argentina 45,767,000, Canada 50,835,000, Japan 37,351,000, Australia 11,994,000. Total calorie value, in millions of calories, of leading food crops produced annually, per capita: Argentina 6.45, Canada 6.30, U. S. 4.63, Germany 2.12, France 1.79, United Kingdom 0.56, Japan 0.72.

This lead in foodstuffs production resulted partly in higher consumption, absolutely and per capita, and partly in an important export surplus. The survey also indicated that the only foods for which the United States was dependent upon foreign countries were coffee, tea, olive oil, rice, sugar, cocoa, and bananas, and that some quantities of several of these, namely rice, sugar, and olive oil, were produced in the United States. Indeed, since the survey was made rice production has so increased that the United States has become a net exporter, and some sugar production in continental United States and in its colonies and some possibilities of production of the other deficit foodstuffs in the insular possessions may be noted.

These basic facts account for the pre-war position of the United States as a minor importer and a major exporter of foodstuffs, a position which has not radically changed in the post-war period and which was enhanced during the war by the stimulation of American agriculture caused by larger world demand for such foodstuff exports. But there are clear indications that this large foodstuff export position will not be permanently maintained, as population expands and as the predominance of secondary industries within the country becomes more pronounced.⁹ In fact, a recent authoritative analysis of the problem of land utilization in the United States¹⁰ points out that American agriculture is now in a stage of transition, and, as noted in an earlier chapter, offers interesting speculations as to its probable

⁹ *Vide supra*, for detailed analysis of the trend of U. S. national economy in this respect. Also, *The Future of the United States as a Food Exporter*, by Taylor, A. E., reprinted by the Food Research Institute, California, from the Manchester Guardian Commercial Supplement on Reconstruction in Europe, November 16, 1922.

¹⁰ Land Utilization in the United States. Geographical Aspects of the Problem, by Baker, O. E., in the *Geographical Review* (American Geographical Society), Vol. XIII, No. 1, January 1923.

effect upon population. It refers to various estimates of the future population of the United States, including one¹¹ which assumes that this will increase less and less rapidly until it becomes stationary at about 185 to 190 millions at the end of the twentieth century. It remarks that the population problem has been solved in France by limitation, in England by industrial development with importation of foodstuffs and industrial raw materials, in Germany by a balanced system of industrialization and intensive agriculture, in Russia by famine, and in nearly all countries by war. It proceeds to a careful survey of land utilization in the United States and estimates that by both irrigation and drainage reclamation, and by utilizing cut-over pasture, this country could probably feed 185 million people, and that by also intensifying cultivation and altering consumption accordingly, the population might be permitted to run even as high as 400 to 500 million. But this would entail change of diet and an altered standard of living, with a considerable relative increase in food prices. And in any event it is clear from these and other calculations that any very great future increase in population must mean an end of foodstuff exportation and a considerable increase of importation of foods. Even at present the importance of imports of foodstuffs, especially tropical ones such as sugar and vegetable oils, and the readjustments of the export trade in livestock products and grains, give some indication of the beginnings of such a trend. American foodstuffs dependence may not assume large proportions for a long time to come, but expansion of population and industrialization point at least to a marked decline in the aggregate exportable surplus.

Agricultural Raw Materials. This trend is even more

¹¹ Estimate of Dr. Pearl and Dr. Reed of Johns Hopkins University.

marked in the case of the raw material products of agriculture which are used for manufacture. It is true that the United States remains an extremely large exporter of raw cotton, despite the considerable growth of the cotton textile industry, and also exports other agricultural raw materials. On the other hand, it imports increasing quantities of materials of this category, such as wool, Egyptian cotton, other fibers, vegetable oilseeds and oils, and even hides and skins, and such dependence has been sharply realized in the case of rubber.¹²

THE POSITION WITH RESPECT TO FORESTRY AND FISHERIES

The position of the United States with respect to forest and fishery resources has been highly favorable. It has important fishery product exports, especially in the case of canned salmon.¹³ Its forest resources are large and it has long been a large exporter of lumber. But lumbering has progressed so rapidly as to threaten timber depletion, and imports of wood and wood-products, especially of pulpwood and wood-pulp, have become large and highly important.¹⁴

THE POSITION WITH RESPECT TO ORGANIC PRODUCTS IN GENERAL

The position of the United States with respect to agricultural and other organic resources may be briefly summarized as follows. This country is an exporter of wheat, rye, oats,

¹² Originally a forest product, the present predominance of plantation rubber brackets it for the agricultural category.

¹³ *Vide* U S Bureau of Fisheries, *Fishery Industries of the United States* (by Sette), 1923. Also, "Commercial Fisheries" in *Commerce Monthly*, November 1925.

¹⁴ *Cf* Zon, R., and Sparhawk, W. N., Forest Service U S Department of Agriculture, *Forest Resources of the World*, 2 vols, N Y, 1923, esp pp 1-71 and 495-557. U S Department of Commerce, *Commerce Yearbook*

barley, corn, rice, cottonseed and cottonseed cake and oil, beef and dairy products, pork, mutton, tobacco, salmon, certain vegetables and fruits, some hides and skins, certain types of lumber, and cotton. But it is an importer of copra and coconut oil, linseed and linseed oil, and other vegetable oilseed, and oils, sugar, coffee, tea, some tobacco, cacao and spices, some hides and skins, wool, Egyptian cotton, flax, silk, jute, sisal, camphor, quinine, rubber and gutta percha, forest products such as cork, shellac, gums, rattan and quebracho, and lumber, especially pulpwood, and wood-pulp. Large and varied as its organic resources are, it is tending to become more rather than less dependent upon the organic products of foreign resources. This dependence is potentially less acute than in the case of the non-reproducible minerals, but the practical difficulties in the way of developing any needed organic product at will, due to conditions of soil, climate, and labor supply, and consequently of comparative costs, are usually considerable and often insuperable, and the likelihood of a more complete production of all necessary organic materials, at least in continental United States, is problematical if not remote.

THE POSITION WITH RESPECT TO POWER AND MINERAL RESOURCES ¹⁵

Water Power. The water power resources of the United States are large and far from fully developed, although some of the best areas of water power are not convenient to

¹⁵ *Vide* U. S. Geological Survey, *World Atlas of Commercial Geology*, 1921, 2 parts, for basic data on world mineral and power resources, Spurr, J. E. (ed.), *Political and Commercial Geology*, for current data, U. S. Geological Survey, *Mineral Resources of the U. S.*, Roush, G. A., *The Mineral Industry* (annual), U. S. Department of Commerce, *Commerce Yearbook*.

the present centers of manufactures. Such resources are of importance as substitutes for other sources of power ¹⁶

Coal. The coal reserves and coal production of the country are very great, the latter averaging from 40 to 46% of the world total, and there is some exportation ¹⁷ No coal deficit threatens

Petroleum. The United States is the largest petroleum producer and exporter of petroleum products in the world.¹⁸ Its production in recent years has varied from 60 to over 70% of world production. It also has large reserves. But consumption and exportation have progressed so rapidly that considerable imports of crude petroleum, especially from Mexico, are necessary to maintain the exports of refined products. Its imports of crude far exceed its exports of crude, and in this respect it has a net deficit. Although they are measured in different units, it has also been estimated that in certain recent periods the domestic consumption of refined products, when reduced to crude equivalent, has slightly exceeded the domestic production of crude. The future position with respect to petroleum is problematical

Iron. The United States also has a leading place with respect to iron and steel ¹⁹ In recent periods its output of iron ore has varied from 37 to 60% of the world total, of pig iron from 40 to 60%, and of steel from 42 to 60%. It retains large ore reserves. But it has already begun to import appreciable quantities of iron ore, particularly of certain types. Its imports of the ore are greater than its ore exports. Considering ore alone, therefore, it has a net de-

¹⁶ U. S. Geological Survey, *World Atlas of Commercial Geology*, Part II, esp. pp. 38-39 (also *Commerce Yearbook*, etc.)

¹⁷ *Ibid.*, Part I, pp. 9-16 (also *Commerce Yearbook*, etc.)

¹⁸ *Ibid.*, Part I, pp. 17-21 (also *Commerce Yearbook*, etc.)

¹⁹ *Ibid.*, Part I, pp. 25-28 (also *Commerce Yearbook*, etc.)

ficit in iron. However, the domestic ore yields an exportable surplus of iron and steel products.

The Major Minerals. This country is also a very large producer of copper, with 60% or more of world output in recent periods, of lead, with over a third of world output, and of zinc, with one-third to one-half of world output. In these cases it imports also, purchasing, for example, large quantities of copper ore (usually concentrated) and unrefined copper, lead ore, and some zinc ore, to supplement the large domestic ore supply for the refining industry and consequently partly for refined and finished export, but it has a net surplus of these ores, that is, has a net exportable surplus of the refined and manufactured products from domestic ores.

Considering the import and export of the material alone,²⁰ therefore, the comparative position of the United States is particularly favorable with respect, generally, to the "four major metals" and coal and petroleum, or what are sometimes termed roughly the "six major minerals." In this respect it has a net deficit (of these six materials) of only petroleum and iron, and a net surplus of the other four.²¹ Taking only five of these, coal and the four major metals, this position is one of considerable contrast with that of other leading industrialized countries.²² For example, Great Britain has a surplus only of coal, France only of iron ore, Italy only of iron ore and zinc, and Germany (formerly) only of coal and that an indeterminate one since the World War. Furthermore, American iron ore yields an

²⁰ Counting refined copper, lead, and zinc as primary materials rather than as manufactured products, but counting petroleum products as finished products.

²¹ U. S. Geological Survey, *op. cit.*, Part I, p. 5 (Estimates including production, apparent consumption as production plus imports less exports, deficit as difference between production and apparent consumption, and surplus as excess of production over consumption) (Also U. S. Department of Commerce, *Commerce Yearbook*, recent years).

²² *Idem.*

exportable surplus of iron and steel products, so that in a truer sense there is no net American iron deficit, and the possible petroleum deficit (excess of domestic consumption of petroleum products over domestic production of crude in terms of products) is as yet slight. In a sense, therefore, the American position with respect to the principal mineral materials is excellent, and this country exports large quantities of either refined or manufactured products of all of them. However, what is perhaps most important from the present viewpoint is that all of these cases involve more or less important imports of the raw material and that, generally speaking, whether or not ultimate domestic consumption is dependent, at least the export and production for export is dependent, in greater or less degree, upon such imports. In short, despite the tremendous lead in absolute amount of production, and despite the much larger place of consumption than of export in the total finished output, if exports are taken into account, the American position even with respect to major minerals is not one of complete independence.

Other Minerals. The United States is also a producer of certain other mining products²³ such as vanadium, molybdenum, aluminum, mercury, sulphur, gold, silver, cadmium, metallic magnesium, and phosphates, and has some production of manganese, chromium, tungsten, arsenic, and numerous other metals. But in many of these cases its production of the raw material is insufficient for its own industrial needs. Its imports of potash and nitrates are of strategic importance.

In summary it has a surplus of coal and of copper, lead, and zinc, but is an importer, not only of some iron, copper,

²³ *Ibid*, Part I, pp. 29-72. *Vide* also, re these and above products, U. S. Bureau of Mines, *Mineral Resources of the U. S.*, annual, pub. also in separate pamphlets, e. g., *Lead in 1925*, *Copper in 1925*, *Zinc in 1925*, *Petroleum in 1925*, etc.

lead and zinc ore or concentrates, but, more especially, of manganese, chromium, and tungsten (these important in its steel industry) and nickel, antimony, asbestos, monazite, arsenic, barytes, quicksilver, graphite, magnesite, mica, asbestos, and platinum, and of crude petroleum, of tin, and of potash, and nitrates ²⁴

²⁴ Cf following classification

I Practical Total Dependency of the United States on Foreign Countries

A Reproducible Raw Materials

- | | | |
|-------------------|-----------|----------|
| 1 Shellac | 4 Copra | 7 Manila |
| 2 Quinine | 5 Jute | 8 Silk |
| 3 Natural Camphor | 6 Sisal | 9 Flax |
| | 10 Rubber | |

B Non-Reproducible Raw Materials

- | | |
|----------------------------|----------------|
| 1 Quebracho | 6 Nickel Ore |
| 2 Potash | 7 Antimony Ore |
| 3 Sodium Nitrate | 8 Cryolite |
| 4 Tin Ore | 9 Asbestos |
| 5 Platinum & Allied Metals | 10 Monazite |

II Adequate Domestic Supply and in Some Cases an Exportable Surplus

A Reproducible Raw Materials

- | | |
|----------|------------------|
| 1 Cotton | 2 Cottonseed Oil |
|----------|------------------|

B Non-Reproducible Raw Materials

- | | | |
|-------------------|----------------------|--------------|
| 1 Forest Products | 7 Metallic Magnesium | 13 Salt |
| 2 Earths | 8 Molybdenum | 14 Copper |
| 3 Bismuth | 9 Alumina | 15 Petroleum |
| 4 Lead | 10 Zinc | 16 Coal |
| 5 Cadmium | 11 Silver | 17 Iron Ore |
| 6 Phosphates | 12 Sulphur | |

III Not Produced in Sufficient Amounts in the United States to Satisfy Home Consumption and Domestic Supply Must Therefore be Supplemented by Imports from Foreign Countries

A Reproducible Raw Materials

- | | |
|--------------------------|------------|
| 1 Citrate of Lime | 4 Tobacco |
| 2 Hides and Skins | 5 Hemp |
| 3 Certain Vegetable Oils | 6 Wool |
| Coconut Oil | Olive Oil |
| Linseed Oil | Peanut Oil |

Some of these points of dependence are rendered less acute by industrial control by concerns of the United States of deposits in Latin America and elsewhere, as in the case of petroleum and iron ore. Others, such as those of potash and nitrates, and in a lesser degree, tin, are strategic and are accentuated by special forms of foreign restrictions affecting their price.

THE TOTAL POSITION AND ITS SIGNIFICANCE

The United States is the most fortunately placed of all the national industrial powers with respect to material resources. But in its modern development it is very far from complete self-sufficiency²⁵ and the trend is clearly toward increasing reliance upon resources beyond its own territorial boundaries. Certain of these external sources happen to be under the industrial control of private interests of this country, as in the case of mines in Latin America. In other cases the importation into the United States goes on freely, so far as the country of origin is concerned. But in still other cases export duties and other restraints for the purpose of price increase have been imposed in such a way as to accentuate the dependence. This increasing insufficiency of the United States as well as, to a much greater degree, that of other leading industrial powers with respect to essential

B Non-Reproducible Raw Materials

1 Arsenic	5 Magnesite	9 Fluor-Spar
2 Manganese	6 Abrasives	10 Mica
3 Chromite	7 Barytes	11 Quicksilver
4 Tungsten	8 Vanadium	12 Natural Graphite

— From *Annals of the American Academy of Political and Social Science*, Vol. CXII ("Raw Materials and Foodstuffs in the Commercial Policies of Nations," by Culbertson, W. S., *et al.*), 1924, pp. 21-26.

²⁵ Cf. Redfield, W. C. (formerly Secretary of Commerce), *Dependent America*, Boston, 1926.

supplies, not only helps fundamentally to account for much of the existing extension of enterprise from one country to another, but also presents, in international economic relations, certain problems of material controls, which will be examined in the following chapters. In some instances these problems are ones of difficulty, but in the last analysis they occur in a limited number of cases and are of less final importance than the fact of the international extension of enterprise and the general industrial interlacing of national economies to form a coordinated structure.²⁶

²⁶ For additional data and references on the comparative position of the various nations with respect to natural resources and essential supplies, *vide* Appendix

CHAPTER XII

PUBLIC FOREIGN AND INTERNATIONAL CONTROL OF RAW MATERIALS¹ ,

THE QUESTION OF WORLD MONOPOLY OF NECESSARY SUPPLIES

TYPES OF CONTROL OF MATERIALS

THAT the distribution of the world's major resources among the areas marked out by the various political boundaries is of strategic importance in the economic position of nations has been noted in the previous chapter. On the basis of this distribution countries evolve their respective industrial developments, and their governments frequently set up various kinds of political controls for the encouragement or restriction of the exploitation and import and export of the products of their resources¹. But there are also established private controls of these materials, and, in addition, many controls which involve the joint participation of governments and private concerns. Indeed, the distinction between these types cannot always be drawn, yet certain cases are reasonably clear and the most important of such cases, of all types, may be noted. The public and quasi-public controls will be considered in the present chapter, private exploitation in a sub-

¹ The term raw materials, unless otherwise indicated, in this and the following chapter, is used to include both foodstuffs and industrial raw materials ,

sequent chapter While not all of these controls are monopolistic, certain of them are, and it is this type which is most striking and which attains the greater degree of international attention

GOVERNMENTAL IMPORT AND EXPORT CONTROLS

Government restrictions which effect international control of materials include import and export duties, both preferential and non-preferential, and outright trade embargoes or prohibitions except under license,² as well as the more basic production and marketing controls

IMPORT DUTIES

Import duties³ present the most familiar type of restriction on foreign trade among the leading nations at the present time They constitute a particularly important tariff device of the industrialized countries, and while they are frequently used to afford protection to agriculture and even to forestry and mining, they are apparently somewhat more used to protect manufacturing industries, and when this is their principal purpose they are not so apt to be applied to imported materials needed by such industries. Yet where there is also a domestic production of the materials, it not infrequently obtains protection also, so that import duties in practice do affect the international flow of raw materials However, where the country applying the tariff has no domestic production of the material it does not im-

² In the following pages, *The Annals of the American Academy of Political and Social Science*, "Raw Materials and Foodstuffs in the Commercial Policies of Nations" (by Culbertson, W S, *et al*), Vol CXII, March 1921, has been drawn upon, with respect to parts of the classification, and data concerning several cases of raw material control

³ Import and export duties and other restrictions are here discussed only with special reference to control of raw materials

pose import duties of this sort, except in rare cases where revenue is the chief purpose, or where it hopes to initiate such domestic production, as in the case of the duty imposed for a time by the United States upon imports of tin. The actual cases of import duties on raw materials affecting the industries of the leading countries are, nevertheless, not entirely rare. The principal question here involved, however, is whether import duties are internationally more justifiable than export duties in their effect upon raw materials. There is a tendency so to consider them, particularly in the United States. This view is that import duties affect only the domestic industries or populations using the raw materials, or foodstuffs, upon which they are applied, and consequently are, in a given case, a nation's own concern only. On the other hand, it may be agreed that they react upon the primary industries producing them in the exporting country, and this is particularly true where a single importing country constitutes the exclusive or nearly exclusive market for a given material. It is true that import duties are in a sense less broadly international in their effect, and they rarely result in a world-buying control of a monopolistic nature, whereas export duties in important cases have amounted to world-monopolistic manipulation of a selling control type. It is also true that the effectiveness of a given type of restrictive manipulation of a raw material rests primarily on the nature of the material itself, and upon its production and its world market. For example, British production and primary marketing dominate the world rubber market, and the recent Stevenson plan was simply a manipulative device resting upon such domination for its effectiveness. But import restrictions apparently lend themselves less effectively to such manipulation than do export restrictions. With the United States occupying a practically

equally dominant place in world rubber buying with that of the British in rubber selling, the question whether an American import restriction on rubber could be as effectual as the British export restriction may be an interesting subject for theoretical speculation. But in fact, as is clear in this case, where a material is an essential one, production control appears to have at least an initial advantage over consumption control, thus rendering import restriction a less generally serious problem than export restriction in such a category of commodities.

EXPORT DUTIES

Export duties, while comparatively little used by the leading industrialized countries, and constitutionally prohibited in the United States, are much in vogue in colonial and other economically frontier countries where, if the total number of products is limited and these products have a more or less monopolistic position in world trade, such a duty is a particularly useful revenue device, serving as a kind of substitute for a tax on production. Their purpose is usually fiscal, but they are often also very effectively employed for the valorization of the price of commodities upon which they are imposed, and since such commodities in a number of instances do occupy a monopolistic position in the world market and are essential to industrialized countries, they at times constitute an important form of raw material control. Recent examples of export duties on raw materials have included those on copra, coconut oil, plumbago, jute, and rubber.⁴ Certain cases have assumed particular importance.

Jute. British India has an almost complete monopoly of the production of raw jute. Formerly Dundee, Scotland, was practically the only center of jute manufacture, but

⁴ U. S. Tariff Commission, *Colonial Tariff Policies*, 1922, pp. 50-52, 297, 304, 313, 320, 325, 335, *et al*.

this industry (either in the form of manufacture of jute cloth or of manufacture of bagging, etc.) has developed in Europe, in India itself, and in the United States, where large quantities of burlap bagging are needed for the handling of such commodities as grains and fertilizers. India imposes an export tax on both raw jute and jute manufactures, and in 1918 it was proposed to increase this duty and make it preferential, but the proposal was not adopted.⁵

Rubber. Rubber is another important raw material which is essential to the industries of certain leading nations and the supply of which is subject to a near monopoly. Originally it was obtained from the wild trees of South America and Africa, but with the growth of the plantation industry of the "Middle East," all but a small part of the supply came to be shipped from the estates of British Malaya, Ceylon, British India, British Borneo, the Dutch East Indies, and French Indo-China. Production in the British Colonies prior to the restriction act of 1922 averaged from 60 to 80% of the total "Middle East" production, and this British politico-economic control is enhanced by British ownership of plantations in the Dutch East Indies and by the dominance of Singapore as the leading primary, preparing, and trans-shipment market. On the other hand the United States is much the largest importer and consumer, having taken in recent years as much as 70 to 80% of the total supply, particularly for use in the tire industry which it has so highly developed.

A price decline in 1921 led to proposals for voluntary restriction of production among planters, but this failing, the British Colonial Office appointed a committee to consider the matter, and its recommendations, known as the Stevenson Plan, were enacted November 1, 1922. This law provided for (1) a "standard production" for each rubber

estate, based upon output in the year ending October 31, 1920, plus allowance for production from new areas, (2) allocation for export of a certain percentage of total standard production, quarter by quarter, the amount of allocation to vary according to average prices during the preceding quarter, and (3) a minimum duty on exports permitted on the basis of standard production, with a sliding scale of increased rates applicable to larger amounts of exports, the higher gradations of these rates becoming practically prohibitive.⁶ The operation of this scheme at times apparently produced the desired result of increased price in the world market, and while the duty was not preferential its effect was sharply felt in the United States, where it led to protests and to various suggestions for self-help, including the development of American owned plantations in the Philippines and in other non-British areas as in the Amazon region and in Africa. Investigations were instituted with the latter object in view, and leading American manufacturing interests, some of whom already possessed estates in the "Middle East," took steps in this direction, as in the purchase of acreages in Liberia. The possibilities of an American controlled supply in the Philippines are generally considered the most favorable, but the practical obstacles to such development, including not only Philippine restrictions on size of landholdings but

⁶ U S Department of Commerce, *The Plantation Rubber Industry in the Middle East* (by Figart, D M), T P S No 2, 1925. Vide also other numbers in the "*Crude Rubber Survey*" by that Department, e g (1) *The Marketing of Plantation Rubber* (by Blandin, J. J), T I B No 180, 1924, (2) *Possibilities for Para Rubber Production in the Philippine Islands* (by Vance, C F, et al), T P S No 17, 1925, (3) *Rubber Production in the Amazon Valley* (by Schurz, W. L, et al), T P S No 23, 1925, (4) *Possibilities for Para Rubber Production in Northern Tropical America* (by Treadwell, J C, et al), T P S No 40, 1926. Also U S Dept of Commerce, *Foreign Combinations to Control Prices of Raw Materials*, T I B No 385, 1926, pp. 6-24, and U S House of Representatives, *Preliminary Report on Crude Rubber, Coffee, etc.*, 69th Congress, 1st Session, 1926, H. R. Report No. 555, pp. 5-8.

also higher wage costs, are somewhat typical of the many practical difficulties of reproducing a raw-material industry at will, in order to attain national commercial independence. If such is true of an organic product, it is even more true of a mineral product. Another American defense measure was the formation of a large buyer's pool, and, partly as a result of this case, it was proposed that the Webb-Pomeroy Act, which exempts American export concerns from the combine-prohibitions of the anti-trust laws, be amended to cover also import combines. Still another American plan for combating the rubber control, aside from the official representation which as in so many economic matters was ineffective, involved adjustment of consumption. It was not feasible for the Government to compel such restriction, but the Department of Commerce encouraged a movement for both reduction of consumption and greater conversion of scrap-rubber. It was claimed that this had some effect upon the price, but it could scarcely break the foreign control, since the demand for rubber is now so relatively inflexible. The most novel expedient was the search begun by scientists for new rubber-yielding species of plants which grow or could be grown in continental United States on a commercial scale and for commercially practical methods of extracting rubber from them. There is great doubt as to the successful outcome of this series of experiments, although nothing of this sort is entirely beyond the realm of possibility, since equally revolutionary changes in the sources of raw materials have been made in modern industrial history.

Finally the British Prime Minister announced that the Stevenson Act would become inoperative (as of November 1, 1928), the reason probably being, not a political one, but lack of ultimate success of the scheme, and this lack of success, in turn, was probably due less to the American efforts

at resistance or circumvention than to the incompleteness of the so-called monopoly and the increase in production and export in the Dutch East Indies. The abrogation of the rubber export duties would seem to indicate an ending of the problem, although it is rumored that this British political device will probably be superseded by some voluntary scheme of restriction of export involving both British and Dutch producers, a scheme perhaps more effective than the Stevenson plan. One significant point remains to be considered. The Stevenson Act was frequently thought of as a measure taken by the government of one leading economic power to discriminate against or obtain advantage over another leading country. It is true that, while not preferentially phrased, to the extent that it was effective it operated to the disadvantage largely of the United States, since the latter country, with its remarkably large automotive and tire industries, happened to be the consumer of a large proportion of the world's rubber. But, as in the instances of many, if not most, other international raw material controls, the history of the case rather clearly indicates the absence of anything approaching political malice. If the control was politically ill-advised or conducive to friction, or economically unwise, it had its inception in a price difficulty and what appeared to the producers as a real need for market stabilization to save them from disaster. In turn, market stabilization is coming to be recognized, nationally and internationally, as a not entirely undesirable objective, a thing as justifiable, perhaps, as certain other economic ideals such as freedom of inter-play of supply and demand, from the viewpoint of the consumer as well as of the producer. For if the upward and downward sweeps of the price curve in a given market are too severe, the result is not only uncertainty for both producer and consumer but also general

economic waste arising from the violent adjustments thus occasioned, as in abandonment of capital equipment. If price curves were smoother, it is argued, both producers and consumers could plan their operations more efficiently than they can when they see-saw, respectively, from extreme advantage to extreme disadvantage. Moreover, it is pointed out, this applies generally more to agriculture than to other industries, in that agricultural production is relatively less flexible in its response to market demand. In the case of rubber plantations this inherent inflexibility occurs to a peculiar degree, for the reason that the trees do not come into commercial bearing until they are four to six or seven years old, nor into full productivity until they are ten or twelve, and, once producing, cannot be converted to other use, nor their amount of output adjusted without considerable investment loss. These arguments are not cited in defense of the British rubber control scheme, nor do they justify the idea of random governmental interference in industrial and commercial situations of that sort, indeed, governmental measures in such instances usually seem to prove ill-advised and even ineffective. But these points show that in this case there was a real problem, and that it was primarily an *economic* problem, involving the question of the extent to which "market control" or "market stabilization" in one form or another is economically justifiable in its interference with the free inter-play of supply and demand. It is seen, also, how such situations lead to an interesting type of economic, and at the same time political, problems in the relations of different countries.

PREFERENTIAL DUTIES

Duties effecting control of raw materials are not infrequently preferential, and this is particularly significant in

the case of export duties. It is sometimes asserted that preferential import duties on such materials tend to extend a benefit to the consumer if practically all of the imported commodity is obtained from the country or colony enjoying the preference, and there is some validity in the assertion, although preferential benefit, like tariff tax incidence, necessarily varies with the relative flexibility of demand. There is also some truth in the contention that the effect of a preferential import duty, when there are other imports made at the full rate, tends to amount to a bounty to the producer in the favored country or colony. On the other hand the preferential phase of export duties is particularly apt to benefit the preferred consumers and to be borne by the producers in the country or colony of export. Further, preferential export duties are commonly considered to be more provocative of conflict than preferential import duties, which they probably are at the present time, but there would seem to be no fundamental difference in principle between the two, since both are primarily for the encouragement of some industry in given countries, however, when they apply to raw materials, as they at present so often do, they undoubtedly tend to meet with sharp opposition in third countries industrially dependent upon an import supply of such materials.

Examples of preferential export duties on raw materials were particularly to be found in various parts of the British Empire following the World War, as in the case of export duties on palm kernels from British West Africa,⁷ later repealed (in 1922), a proposed preferential duty on jute shipped from British India,⁸ and a preferential export duty imposed in British India upon hides and skins,⁹ which caused

⁷ U S Tariff Commission, *op cit*, p. 340

⁸ *Ibid*, *vide supra*

⁹ *Ibid*, pp. 352-357

protest in the United States and was later repealed in 1923. While export duties persist in raw material producing countries and colonies, they apparently do not tend to survive in their preferential form, doubtless due in part to the opposition they encounter abroad, but in part also to the discriminatory burden they tend to place upon the producers. Nevertheless they continue in certain instances to effect a special control of the international supply of raw materials, as in the case of tin.

Tin. The world tin market¹⁰ is dominated by British interests¹¹. Tin ore is mined in British Malaya, the Dutch East Indies, Australia, Bolivia, British Africa, China, Siam, and elsewhere, but in recent times the largest production has been in the Federated Malay States. The proportion of this British Malayan production of the raw material has tended to decline, but the British control has been largely maintained, partly through the continuance of Singapore as the leading smelting center and primary market. This position of Singapore in turn has been maintained not only by the strength of an established business but also by means of preferential export duties. Prior to 1903 an export duty had been levied in the Federated Malay States, and in that year an additional duty was imposed on all tin ore shipped without guaranty that it would be smelted in the Straits Settlements, in 1904 the benefit of the preferential was extended to Great Britain and in 1916 to Australia. This restriction has caused some opposition in the United States, which through its tin-plate industry, is the largest consumer.

¹⁰ U. S. Geological Survey, *World Atlas of Commercial Geology*, Part I, pp. 61 *et seq.*

¹¹ Spurr, J. E. (editor), *et al.*, *Political and Commercial Geology*, 1920, pp. 317-336, Sec. on Tin, (by Hill, J. M.). This quasi-official compilation, contributed to by government geologists, of information concerning international private exploitation of minerals has been drawn upon for data on several cases discussed in this chapter.

of the metal and which has practically no paying deposits of tin ore, although attempts have been made to encourage the development of scattered deposits in this country by means of import duty protection¹²

TRADE PROHIBITIONS

Governmental trade restrictions affecting raw materials occasionally take the extreme form of complete embargoes or of prohibitions of import or export shipments except under license, although this is somewhat rare except in war and immediate post-war periods.

Coal Tar Dyes. The strategic importance of the coal tar dye and dyestuff industry, and the German supremacy therein, have been alluded to in previous chapters. War time trade control in this case was continued after the war by Great Britain and the United States, in order to promote the establishment of a domestic industry. In Great Britain, in addition to direct financial grants, the Government in 1918 set up a system of prohibiting imports of such commodities except under license, in 1919 this was held to be without legal basis, but in 1920 it was renewed by passage of the Dyestuffs Import Regulation Act. Similar restrictions were applied in other parts of the British Empire. An analagous licensing system was authorized in the United States by the Emergency Tariff Act of 1921, but was replaced by high import duties in the Tariff Act of 1922.¹³

Pulpwood. Trade prohibitions extend to exports as well as imports. Certain provinces of Canada for some years have prohibited the exportation of logs or pulpwood cut from Crown lands, this is true of Ontario, Quebec, and New Brunswick, and in Ontario there is a special tax upon

¹² U. S. Tariff Commission, *op cit*, p. 337

¹³ *The Annals*, *op cit*, pp. 41-44

such products unless they are used or manufactured within the province. In addition, the Dominion Government has obtained legislative authorization to apply a similar embargo on all logs and pulpwood whether cut from Crown or private lands.¹⁴ These restrictions, while doubtless adopted primarily for conservation purposes, have had a particular international significance, since the United States, although a large exporter of lumber, is also a large importer, and is peculiarly dependent upon Canada for a portion of its supply of pulpwood for maintaining its paper industry.

Other Cases. Cases of restrictions of this sort designed to control raw materials in a strategic way are apparently somewhat rare, but where they do impinge upon the importation of essential materials by other nations they are apt to receive considerable attention. At the present time the United States is exhibiting some concern over all types of foreign governmental measures affecting important materials in its import trade. Generally speaking prohibitory restrictions are not practiced by this country, in its continental or colonial areas. However, it has recently been unofficially reported that the Philippine Government was considering the complete prohibition of export of the seeds of Manila hemp in order to insure the continuation of the practical monopoly of the production of such hemp by those islands. In an era when nationalistic trade restrictions are not yet a thing of the past, their application in such a way as to enhance control of raw materials is as apt to occur as their use for other purposes, and is not unlikely to appear, in one form or another, among practically all leading nations. It is significant, however, and often lost sight of, that such controls are apparently in no instance deliberately planned for the disadvantage of a rival nation, but are quite evidently established

¹⁴ *Ibid.*, pp. 38-40, 231-232

for the advantage of the restricting nation, as in the development of an industry or the maintenance of a world market price; in short, like other phases of national economic policy they may be selfish but can scarcely be thought of as malicious.

GOVERNMENTAL PRODUCTION AND MARKETING CONTROLS

Obviously many phases of national policy other than import and export restrictions affect raw materials in a general way; these include the entire category of internal measures for encouragement or restriction of various industries. One phase of such policy is of distinctly international importance, namely, the restriction or encouragement of production by foreign nationals. Such encouragement is not common, but may occur in the granting of special concessions or contracts by the governments of the countries in which the resources are located, a policy of this sort seldom takes definite form, but such a government, as in the case of China, may in given instances favor the nationals of one foreign country as against those of another. On the other hand, restrictions are frequently placed upon the exploitation of resources by nationals of all foreign countries, or by nationals of countries not granting reciprocal privileges, or, in practice if not in law, by nationals other than those specially favored. Policies of these latter types will be particularly illustrated in the case of petroleum, discussed in a subsequent chapter.

Aside, however, from the various national policies which influence the development and operations of industries in general or of certain groups of industries, including those producing raw materials, and which thus directly or indirectly affect other countries or their nationals, there are

not a few cases where government activities, either by way of restriction or assistance or both, not only are directed toward a specific industry, but also result in a manipulation of the supply of a given raw material of importance to other countries. These are particularly effective where there is a monopoly or practical monopoly of such a material. These governmental measures are of many different kinds. They include simple restriction of production, maintenance of compulsory syndicates of producers and marketing agencies; establishment of government bureaus for regulation of production and marketing, levying of taxes and floating of loans for impounding surplus supplies, in order to equalize losses among individual producers, and to equalize prices in various ways, as well as for mere promotion of production or improved methods of production and for propaganda to increase consumption, governmental marketing of the entire supply of a given material, and governmental participation in actual production and marketing or in primarily private combines for production and marketing. These production and marketing measures in turn are frequently combined with import or export control, particularly with the export duty, which is often highly effective both in raising revenue necessary for the maintenance of the control and, especially, in restricting exports in such a way as to influence world prices. The actual cases of such production and marketing controls consist so largely in a combination of one or more of the devices mentioned that it is impossible and in a sense illogical to attempt to classify them too minutely.¹⁵ Perhaps the

¹⁵ The various raw material and foodstuff controls are listed by Culbertson, W S, in *The Annals* (*op cit*) as (1) import duties, (2) export duties, (3) government prohibitions, embargoes, and licensing systems, (4) preferential duties and other trade restrictions, (5) government aid to producers, (6) government monopoly, (7) financial control by producers, (8) financial control by buyers, and (9) concessions.

most convenient and most sensible classification consists in their division into controls through governmental regulation and assistance and controls through governmental participation, although even these categories overlap somewhat, for example, government representation in the Italian organization for control of citrate of lime might from one viewpoint be considered a form of government participation, while the participation of governmental interests in actual potash production in Germany has probably been less effective in maintaining market control there than the official maintenance of the potash syndicate among private producers. The essential points are simply that a number of monopolistic controls of important raw materials and foodstuffs exist throughout the world as a result of governmental activities, that these activities take a great variety of forms of both restriction and assistance, that usually several of these types of activity are involved in a given case, and that in some cases the government itself is partly or even exclusively the producer or marketing agency. The leading cases of the various kinds are discussed in the following paragraphs.

GOVERNMENTAL REGULATION AND ASSISTANCE

Coffee. Coffee presents an outstanding case of raw product control, involving both regulation and assistance by a government. Brazil, which is much the largest producer and exporter of coffee and is peculiarly dependent upon such production and exportation since this business dominates its national economy, for years has followed the practice of "coffee valorization," a scheme for price maintenance.¹⁶

¹⁶ U. S. Federal Trade Commission, *Cooperation in American Export Trade*, Part I, p. 190, U. S. Department of Commerce, *Valorization of Brazilian Coffee* (by Schurz, W. L.), T. I. B., No. 73, 1922, "Valorization of Coffee in Brazil" in *Commerce Reports*, December 10, 1923.

This has been of special interest to the United States, which is by far the largest importer of Brazilian coffee.¹⁷ Valorization had its inception in 1902-3 when a commercial oversupply led to low prices and resulted in a law in São Paulo, the leading coffee growing state, limiting planting. In 1906-7 the three states in which coffee growing is most important considered a joint arrangement for price control, but only São Paulo proceeded with the plan, which involved loans and taxes to provide funds for purchase and storage of coffee at times of surplus supply. A loan was floated, in part directly through foreign bankers, and in part indirectly through the Federal Government, which obtained funds in London. A tax was placed on coffee exports to provide for interest and amortization. Some difficulties were encountered at that time and subsequently in obtaining the necessary foreign financial assistance, but they were largely overcome. At one time banking interests in the United States became involved. Mercantile interests here also were reported at one time as participating in the "syndicate," but an unsuccessful legal action under the anti-trust laws and a law of 1913 authorizing the United States Government to seize coffee imports when restraint of trade was proved, apparently ended this participation. In 1917 the State of São Paulo made a joint arrangement with the Federal Government of Brazil, and in 1921 the latter government took over the system. In 1922 a national law was passed, establishing an Institute for Permanent Coffee Protection (*Instituto de Defesa Permanente de Cafe*), its finances to be used for the three main purposes of loans to growers, propaganda to promote coffee consumption, and government purchase and storage of coffee to effect price

¹⁷ U. S. Department of Commerce, *Foreign Combinations to Control Prices of Raw Materials*, T. I. B., No. 385, pp. 25-28, U. S. House of Representatives, *op. cit.*, pp. 9-10.

control Competition in coffee exportation from Colombia, Venezuela, Central America, and other countries has had some effect, but Brazil's exports of the cheaper grades have continued to dominate the market, and Brazilian valorization apparently has been fairly effective at times in enhancing coffee prices

Cacao. A very similar valorization system exists in Ecuador That country does not produce so large a proportion of the world's cacao as does Brazil of the world's coffee, but its cacao is its chief product and export, and yields a superior quality of cocoa, which renders price control feasible In 1912 there was organized, with governmental assistance, an Association of Agriculturists of Ecuador, which has a well-developed administrative structure, has banking connections at home and abroad, buys and exports a considerable proportion of the crop on its own account, and is a quasi-governmental institution, since it is permitted to fix local prices and to finance its operations by means of an export tax on cacao¹⁸ Its success has not been unqualified, in view of financial difficulties and of increasing competition, as from Brazil and Africa A price decline in 1920 caused temporary difficulty for a banking corporation in the United States which, due to the fact that this country is the leading buyer of the cacao, was an important agency for the Association. In 1922 it was reported that Brazil had proposed a joint valorization plan, with participation by Brazil, Portugal, and Ecuador¹⁹

Citrate of Lime. The Italian Government controls the production of citrate of lime in Sicily through the Camera Agrumaria This chamber is composed of representatives of both producers and government ministers, guarantees

¹⁸ U S Federal Trade Commission, *op cit*, Part I, pp 189-190.

¹⁹ *Annals, op cit*, pp. 63-65

minimum prices to producers, advances funds to producers upon deposit of their output, periodically fixes market prices, and makes monthly allotments of exports to buyers throughout the world. The government forces sales through this organization by imposing an export duty on sales not so made, as a result the Camera handles practically all of the product. The United States purchases a large proportion of its citric acid imports, as such or as citrate of lime, from Italy.²⁰

Currants. Greece produces a large proportion of the world currant crop. In 1905 the "Privileged Company" was established and was given power to prevent overproduction and to stabilize price. It may limit acreage, make loans to growers, and, under certain conditions, purchase surplus quantities of the currant crop. It also collects land and export taxes, and acts practically as a branch of the Greek Government for the control of the production and marketing of currants.²¹

Sisal. The state of Yucatan has a practical monopoly of the production of henequen, a kind of sisal fiber used especially in making binder twine, large quantities of which are needed in the United States, notably for agricultural purposes. During the war the Comision del Reguladora del Mercado de Henequen was established in Mexico. It was liquidated in 1919, but in 1922 the government of Yucatan caused to be formed the Comision Exportadora de Yucatan, and imposed an export duty on all henequen not shipped by this agency. The monopoly is sometimes said to be not complete, since other fibers may be substituted when the price of henequen becomes too high, but it is as nearly so as is ordinarily found in national or international industry.

²⁰ *Ibid*, p. 60.

²¹ *Ibid*, p. 65.

and commerce. The case is of peculiar American significance because American banker-importers have been involved in the control and American laws have been invoked.²²

²² *Id.*, pp. 55-60, U. S. Department of Commerce, *op. cit.*, (T. I. B. 385), pp. 29-30, U. S. House of Representatives, *op. cit.*, pp. 11-12. N. B. The *Isaiah* case is particularly interesting from the American viewpoint, in that American bankers had helped to finance the industry, and in that a group of American banker-importers are alleged to have conspired to maintain the price and have been proceeded against under both the Sherman Anti-trust Act of 1890, and the Wilson Tariff Act of 1894, as amended in 1913, which latter act prohibits combinations and conspiracies in restraint of trade when entered into in the American import trade. The proceedings in this case are worth quoting.

The *Brief for the United States*, No. 200, In the Supreme Court of the United States, October Term 1926, *The United States of America, Appellant, v. Isaiah Sales Corporation et al.*, read in part as follows:

"*Quintus Præcedit*. Whether it is a violation of the Sherman and Wilson Anti-trust statutes for a group of bankers to conspire in this country to monopolize the importation of a basic product from a foreign country, in which over 80 per cent of that product is produced, and to carry such conspiracy into effect and actually enhance prices, by the following means: (a) Organizing and financing a corporation in the foreign country as an exclusive purchaser of the product, with power to fix the price at which to sell the product at will from the market, (b) Turning over to that corporation the existing stocks in the hands of the subsidiaries of the defendants, so as to form an exclusive pool, (c) Obtaining for that corporation from a foreign local government a discriminatory tax effective to produce a monopoly, (d) Organizing a single corporate selling agency in the United States, with power to fix prices and impose terms, such as— (1) Reserving to the American purchaser of the product to take a portion of the said product together with the new product (2) Securing exclusive use of the said transportation facilities from Yucatan, point of almost sole production."

"*Statute Violated*. Sherman Anti-trust Act (Act of July 2, 1890, c. 636, 26 Stat. 207) Sec. 1. Sec. 2. Wilson Tariff Act of August 27, 1894, c. 349, 28 Stat. 509, 570, as amended by Act of February 12, 1913, c. 40, 37 Stat. 667) Section 73. That every combination, contract, trust, agreement, or contract is hereby declared to be against public policy, illegal, and void when the same is made by or between two or more persons or corporations either of whom as agent or principal is engaged in importing any article from any foreign country into the United States, and when such combination, conspiracy, trust, agreement, or contract is intended to operate in restraint of lawful importation, free competition in lawful trade or commerce, or to increase the market price of any part of the United States of any article or articles imported or intended to be imported into the United States, or of

any manufacture into which such imported article enters or is intended to enter

The Supreme court in its decision (May 16, 1927) (printed in pamphlet form) gave an interesting summary of the sisal situation, and reversed the decision of the lower court, which had dismissed the bill. The Supreme Court said, in part

"Appellees are three banking corporations doing business at New York and New Orleans, two Delaware corporations—The Eric and the Sisal Sales—organized to deal in sisal, a Mexican corporation—Comision Exportadora de Yucatan—which buys sisal from the producers, certain officers and agents of the foregoing corporations, and members of Hanson and Orth, brokers

"Sisal is the fiber of the henequen plant, a native of Mexico, and from it is fabricated more than eighty per centum of the binder twine used for harvesting our grain crops. The annual requirements of the United States are from two hundred and fifty to three hundred million pounds. During one year a million bales—375 pounds each—were imported. Adequate quantities can be obtained only from Yucatan. The plant is extensively cultivated there and the supply has often exceeded market demands. Prices paid to producers have varied from less than four to seven or eight cents per pound.

"Prior to 1919 appellee banks advanced large sums to parties endeavoring to monopolize importation and sale of sisal in the United States. The Mexican corporation, Comision Reguladora del Mercado de Henequen, was utilized as an important instrumentality for making necessary purchases and legislation favorable to it was secured. For a time the scheme succeeded, then came collapse. Through foreclosure of liens held to secure their loans (several million dollars) appellee banks acquired four hundred thousand bales of fiber stored in this country. About that time, through change of laws, the Yucatan markets were again opened, competition became active and prices declined.

"Thereupon, appellee banks, acting jointly and within the United States, entered into and undertook to make effective another and somewhat different combination or scheme to control the sisal market, with the ultimate purpose of selling their holdings, recouping losses and securing large gains. Later, the other defendants became parties thereto.

"As the direct outcome of this unlawful combination, conspiracy and accompanying contracts, it is alleged—

"Appellees have secured a monopoly of interstate and foreign commerce in sisal. The Comision Exportadora de Yucatan has become sole purchaser of sisal from producers and the Sisal Sales Corporation sole importer into the United States. There is no longer any competition in the trade, excessive prices are arbitrarily fixed. The sisal acquired by the banks during 1919 has been sold, undue profits and commissions have been and are demanded, the conspirators have realized great sums at the expense of our manufacturers and farmers.

"All steps necessary to bring about the above-stated results have been deliberately taken by appellees. Some of them are stated below.

"The Eric Corporation, organized in August, 1919, and owned and financed by the banks, took over the large stocks of sisal acquired by them through foreclosure, also two hundred and fifty thousand bales accumulated in Yucatan. Laws favorable to it were solicited and secured from the governments of Mexico and Yucatan. Under them, and by use of large sums supplied by the banks, that corporation and its agents soon became everywhere the dominant factors in the sisal trade. Prior to January, 1921, the Mexican corporation, Comision Reguladora del Mercado de Henequen, was the agency for buying and selling sisal in that country, but about that time its business collapsed. Thereupon, the Comision Monetaria was organized under the same laws, furnished with large sums of money and utilized for such purposes. The governments of both Mexico and Yucatan were persuaded to pass discriminatory legislation and all other buyers were forced out of the markets. But because of the great supply of fiber this plan also proved unsuccessful and The Eric Corporation was obliged to increase its large holdings.

"Later, by procurement of the banks, the Sisal Sales Company was organized to deal in sisal and Hanson and Orth became its managers. It took title to the sisal held by The Eric Corporation. The old Comision Reguladora del Mercado de Henequen was revived as the Comision Exportadora de Yucatan and again became the active agent for buying and selling in Mexico. Laws were solicited and passed which gave it advantages over all others. Under these, and by the use of funds supplied by the banks it soon became the sole buyer of sisal from the producers. It also acquired the fiber held by the Sisal Sales Corporation on storage in the United States. Thereupon, the Sisal Sales Corporation, through contracts, became the exclusive selling agent of the Comision Exportadora de Yucatan in all markets of the world and agreed to furnish the funds necessary for the joint operations. Appellees thus, and by constant manipulation of the markets, acquired complete dominion over them, destroyed all competition, obtained power to advance and arbitrarily to fix excessive prices, and have made unreasonable exactions.

"Accepting as true the allegations of the bill — roughly summarized above — it is plain enough that appellees are parties to a successful plan to destroy competition and to control and monopolize the purchase, importation and sale of sisal. The Sherman Act inhibits contracts, combinations and conspiracies to destroy competition in interstate and foreign trade and commerce as well as attempts to monopolize such trade. Sections 73 and 74 of the Wilson Tariff Act, as amended, declare unlawful every combination, conspiracy, trust, agreement or contract intended to operate in restraint of trade in, or free competition in respect of, or intended to increase the market price of any article when one of the parties is engaged in importing the same, and give the courts power to prevent and restrain those who violate the Act. "Here we have a contract, combination and conspiracy entered into by parties within the United States and made effective by acts done therein. The fundamental object was control of both importation and sale of sisal and complete monopoly of both internal and external trade and commerce therein. The United States complain of a

Sulphur and Pyrite, Pyrite and free sulphur²³ are somewhat interchangeable and competitive as raw materials, the sulphuric products include sulphuric acid, materials for commercial fertilizers, explosives, sulphite wood-pulp, insecticides, and material for rubber vulcanizing

Pyrite is produced in Spain and Portugal, and also in Norway, Sweden, France, Italy, the United States, and other countries. Both pyrite and sulphur production present cases of private foreign exploitation, but the Italian sulphur case is one of public control as well as of private affiliation, and consequently may be classified in the present category

Italy, through possession of the rich mines of Sicily, had practically a world monopoly of sulphur until methods were developed for obtaining this material from deeper veins and large-scale production was begun in the United States in 1904. In recent periods this country has been the largest producer, with an output of as much as half and more of the world total, while Italy has remained also a large producer, with well over a third of the total, Japan has come to produce a considerable amount of the commodity, but her output does not constitute a large percentage of the aggregate. The United States and Italy together are therefore the domi-

violation of their laws within their own territory by parties subject to their jurisdiction, not merely of something done by another government at the instigation of private parties. True, the conspirators were aided by discriminating legislation, but by their own deliberate acts, here and elsewhere, they brought about forbidden results within the United States. They are within the jurisdiction of our courts and may be punished for offences against our laws.

"Moreover, appellees are engaged in importing articles from a foreign country and have become parties to a contract, combination and and conspiracy intended to restrain trade in those articles and increase the market price within the United States. Such an arrangement is plainly denounced by Section 73 of the Wilson Tariff Act, as amended."

²³ U. S. Geological Survey *op cit*, Part I, pp. 57 *et seq*.

nant factors in this situation²². After 1896 English and Italian interests attempted to control the Sicilian production, but this ultimately proved commercially unsuccessful. In 1906 the Italian Government intervened and established a rather elaborate public control. An obligatory national law was passed, creating the *Consorzio Obbligatorio per l'Industria Solifera Siciliana*, which all producers were compelled to join. The consortium was managed by a government commission, minimum interest on investments was guaranteed to producers, and both local freight rates and export prices were regulated. In 1910 another law was passed, a principal provision of which was a restriction on the granting of new working concessions. In 1920 the Italian Ministry of Industry, Commerce, and Labor issued a decree establishing maximum prices for various grades of crude and refined Sicilian sulphur and levying a special charge per ton for the support of the obligatory consortium.

However, after the beginning of large-scale and low-cost production in the United States, American competition became severe, and led to a most interesting rapprochement. That is the rigors of this competition were offset by international price agreements. But after the World War the competition again increased, and a large surplus in the Italian market led to a new move by the Italian Government and a new agreement with the American producers. The Government program included assistance in the financial stabilization of the industry and in the scientific organization of production and marketing. The agreement between Italian and American producers was concluded at Rome in 1923, and included the following features (1) A revision

²² *See* *U. S. Geological Survey, Bulletin 1000, pp. 447-461, Sec. on Sulphur and Pyrites* (by White, A. G.), *Finals, of act*, p. 83, U. S. Federal Trade Commission, *of act*, Part I, p. 135.

of a temporary price agreement of October 1922, (2) periodical fixing of prices for the various markets of the world, according to the varying conditions in those respective markets, (3) a reservation of the American market for the American producers and of the Italian market for the Italians, and a division of other world markets at fixed ratios, (4) the organization of an office of central control, with headquarters in London and with representatives of both parties, (5) the arbitration of disputes by a committee in London, composed of one representative of each party and a member selected by these two, or arbitration by the Chamber of Commerce of Rome; (6) termination of the agreement at a given time, but with opportunity for extension. Sulphur thus furnishes a peculiarly interesting case of both public and private industrial control of a raw material, and of international business affiliation in which American interests have been participants. But the monopolistic effectiveness of the agreements in this case has been due more largely to the position of the private interests concerned than to the governmental measures in Italy, so that it is a case which should be referred to in considering private industrial agreements as well as in examining public control.

Sugar. Sugar is the principal product and export of Cuba, which grows a large part of the world's sugar-cane crop, and supplies important quantities to other countries, particularly to the United States. Cuban national economy centers in sugar, its prosperity rising and falling with the fluctuations in the price of that commodity, as was strikingly demonstrated at the time of the Moratorium of 1920. Cuban measures for control of production and for sugar-market stabilization have been adopted recently. The "Sugar Defense Law" of October 3, 1927, (*vide* translation published by J. de D. Tejeda, Havana), provided for a national com-

ward a decline in this surplus, but, during the war the great reduction in European crops sent sharply upward the price of wheat, which incidentally is largely a world price, and stimulated planting of larger acreages in the United States with a resulting increase in exports. In very recent years, as European production has approached its normal size and as European buying power has remained below normal, and also as crops in other exporting countries such as Canada have notably increased the price of wheat has lagged, with attendant hardship for the wheat growers of the United States, whose industry has not yet reverted sufficiently to its pre-war trend to bring about a natural adjustment to the new situation. To relieve this price difficulty, various schemes have been proposed for governmental assistance to the wheat grower, particularly in exportation. One of the most prominent of these (the earlier "McNary-Haugen" plan) was an elaborate device for governmental purchase of the annual surplus above that point which would insure a reasonable price, the government in turn to dispose of this surplus by gradually feeding it into the world market by exporting it. None of these schemes has been adopted.²⁶

- For various bills proposing such plans, *vide* 68th Congress 1st Session, H. R. 9033 (May 2, 1924), 69th Congress 1st Session H. R. 7893 (January 16, 1926), H. R. 11603 (April 26, 1926), H. R. 12418 (May 25, 1926), 69th Congress 2d Session, S. 4808 (December 14, 1926), H. R. 15474 (December 20, 1926), H. R. 15823 (January 4, 1927), and H. R. 15963 (January 6, 1927). For Congressional reports analyzing the problem and the plans: 69th Congress 1st Session, S. Rep. No. 664, "Cooperative Marketing Plan," April 19, 1926, same Congress, H. R. Rep. No. 1003, "Federal Farm Board and Surplus Control Bill," April 27, 1926, 69th Congress 2d Session, H. R. Rep. No. 1790, "The Agricultural Surplus Control Bill," January 18, 1927.

For concise analysis of economic faults of plan involved in S. Bill 4808, *vide* veto message by President Coolidge, 69th Congress 2d Session, Sen. Doc. No. 214, "Surplus Control Act, a Message from the President of the United States," February 9, 1927, and without approval the Bill (S. 4808) entitled "An Act to Establish a Federal Farm Board to Aid in the Orderly Market-

Nor is it the purpose to present a purely national question in this discussion of international controls, nor to indicate that the United States Government, while objecting to monopolistic controls of materials in other countries, as of course it has done, contemplates similar action at home. But it is difficult to see how these wheat valorization schemes could attain any appreciable measure of success so long as wheat production and export are contributed to by so many different countries and the market is so clearly an international and competitive one. In a word, manipulation by a given country of the world supply of a certain essential foodstuff or industrial raw material on the one hand is viewed by at least one important government as an unfair and undesirable interference with world trade and industry, if it is effective, and on the other hand such control is not effective unless the country, or political or industrial combination of countries, has a more or less complete monopoly.

Cotton. The world's cotton business, involving a raw material of prime importance to the highly important textile industry of nearly every important industrialized country, presents no outstanding case of international control. The chief facts of the business are that, while there is no national monopoly of the ordinary short-staple cotton which comprises the bulk of the world's cotton textile material supply, the United States produces the largest crop²⁷ and, in spite of a large domestic consumption, normally exports one-half or more of this crop, thus rendering Great Britain and many other leading textile producing countries, particularly in Europe, more or less dependent upon these exports. On the

ing and in the Control and Disposition of the Surplus of Agricultural Commodities," February 25, 1927, also printed in the *Congressional Record*, February 25, 1927, pp. 4778-4784.

²⁷ U. S. Department of Agriculture, *op. cit.*, pp. 13 *et seq.*

other hand, both the cotton crop, due mainly to vicissitudes in producing conditions, and world cotton consumption, particularly during and since the World War, have been subject to such wide variations, that cotton prices have fluctuated very widely. In recent times a situation came about which raised the question of possible public control, when the 1926 crop in the United States proved to be unusually large, with a resulting tendency toward severe price depression. In addition to private measures, the Federal Government offered indirect assistance in the financing of the carry-over of the surplus by extension of credit facilities through the national Intermediate Credit Banks, as indeed it had somewhat similarly done for cotton and other agricultural products in preceding years through the War Finance Corporation. The question has been raised as to whether this did not amount to public international control of a raw material. But grounds for distinguishing the case from other cases discussed above are, that the assistance was more indirect and more in the nature of normal flexing of credit facilities for any industry which at a given time might need temporary assistance, and that the case is neither one of export *restriction*, nor one of world monopoly — although the supply from the United States is sufficiently important in the world market to have a very appreciable effect upon world price. The case is significant in disclosing a universal desire to save an industry from the cataclysm of a price crash. Artificial measures to nullify the losses of sharp reaction of supply and demand upon price may be at variance with certain idealistic concepts of one school of economic thought, but are not politically unnatural — if, indeed, it might not be argued that within certain limits they are also economically desirable in order to avoid the evils of too great extremes in the cycle of a given business or all business. But

the most important distinction is doubtless one between controls for temporarily preventing disastrous reaction in an industry and for maintaining a *fair* price, and on the other hand, controls based on monopoly power and resulting in an unfair price. True, there may be no valid economic ground for a categorical distinction between fair and unfair price, and there is no scientifically exact method of determining whether a price is fair or unfair, but that distinction as a practical matter has long found expression in English and American common law and in American statute law as applied in the regulation of business. The American economic-legal doctrines concerning monopoly and restraint of trade may sensibly perhaps be carried over into the field of international business.

Another possible case of cotton control may be mentioned. While Great Britain is dependent upon the United States for great quantities of ordinary cotton, she was responsible, apparently as a result of her program for encouraging cotton production in her colonies and in other areas under her ægis, for the development of the long-staple cotton industry in Egypt. The present important production of this special type of cotton in that country, the sizeable imports into the United States for use particularly in cord-tire manufacture, and the status of British economic advantage in Egypt even since the post-war withdrawal of the protectorate, have been noted in a previous chapter. Monopolistic control in this field has sometimes been charged, but it is not a clear case. It is stated²⁵ that the Egyptian Government has at times practiced restriction of production, usually in the form of acreage restriction, as in 1915 and 1921, and that the reason for this was either water shortage in the irrigation system or a desire to influence price

²⁵ U S Department of Commerce, *op cit* (T I B 385), p 29

While it is not established that a price control policy has thus been pursued, it may be observed that this is a case where such control might prove particularly effective, for the new long-staple cotton industry of the United States has not yet sufficiently developed to break the basic Egyptian position

Silk The case of Japanese silk is another doubtful one, so far as actual manipulative control is concerned. It has been stated that "there has been no direct control over production, distribution, or price of silk, except in one instance in 1920 or 1921"²⁹ At that time, doubtless as a phase of the general economic depression of 1920-21, there was a glut and threatened price decline in the silk market, and a large corporation was given financial support by the Japanese Government in acquiring and holding stocks until prices improved. Other countries, including especially the United States, are important importers of Japanese raw silk, and in a sense Japan has a strategic advantage in this respect, but China also exports fairly large quantities of the material and smaller quantities of it are also produced in Europe, nor is the demand for silk perhaps so relatively inflexible as that for such commodities as rubber and potash, even though silk becomes steadily less of a pure luxury. Japanese silk production is not in the strict sense a world monopoly, nor does it present any clear case of control.

Kauri Gum. Kauri gum, used in varnishes and obtained in New Zealand, has been listed as involving monopolistic control of a raw material,³⁰ with a governmental control board to handle the trade.

Chilean Nitrates. The case of the world's supply of nitrates is one of unusual importance because of the

²⁹ U. S. Department of Commerce, *op cit* (T I B 385), pp 30-31, U. S. House of Representatives, *op cit*, p. 12.

³⁰ *Ibid* (H R 555), p. 2.

peculiarly strategic value of these commodities for various purposes. It is also to be distinguished from certain other cases because the control involved has been one of neither governmental participation in production nor compulsory syndication, and has been limited by competition of a distinct type and branch of production, and yet has been fairly effective at times.

The nitrates,³¹ sodium nitrate and others, are largely used in making fertilizers, in which way they occupy a highly important place in the agriculture and foreign trade of many leading countries, including particularly the United States. But they are also used in many branches of the chemical industries, as in the production of nitric acid, and are of utmost importance in the manufacture of explosives, so that they take on a decidedly strategic character. That their use is not limited to the fertilizer industry is disclosed in the following proportions of disposition of the United States' nitrate imports in a recent year: ³² fertilizer 48%, explosives 34%, chemical 14%, miscellaneous 4%.

Nitrogen is almost universally distributed in nature, but free nitrogen is a gas, is very inert, and does not readily form solid compounds. The principal forms in which it is obtained for economic use are as follows: (1) organic nitrogen (for fertilizer in agriculture), as in (a) blood, bone, and tankage, (b) cottonseed cake and meal and similar materials suitable for fertilizers, (c) guano and fresher animal excreta, and (d) nitrogen obtained from the air by leguminous crops the seeds of which have been properly inoculated so as to produce root nodules, (2) mineral deposits consisting of sodium nitrate found in Chile; (3) nitrates derived from am-

³¹ U. S. Geological Survey, *op cit*, Part I, pp. 55, *et seq.*, U. S. Department of Commerce, *General Review of the Nitrogen Situation in the United States* (by Curtis, H. A.), T. I. B. No. 226.

³² U. S. House of Representatives, *op cit* (H. R. 555), p. 11.

monium sulphate, a coal product, of the by-product type of coke and gas production, (4) air fixation nitrates, *i.e.*, atmospheric nitrogen industrially fixed in solid compounds, chiefly as calcium nitrate. There are three chief methods, (a) arc fixation (as chiefly in Norway), (b) the Haber-synthetic ammonia fixation process (as chiefly in Germany), and (c) cyanamid fixation, conducted in various places, including, to some extent, the United States. Commercially, however, the three chief forms are (1) the natural mineral or Chilean nitrate, (2) the by-product nitrates, and (3) the air fixation nitrates. Large quantities of these are necessary for the world's agriculture, which obtains an insufficient supply of the more direct kinds above enumerated, and for the explosives and chemical industries, which are dependent upon them.

Chile is the sole producer and exporter of the natural mineral nitrate, ordinarily known as Chilean nitrate to distinguish it from the fixation nitrates commonly referred to as air nitrates or Norwegian nitrates. The by-product industry has been developed largely in Germany, and also to a relatively small extent in England, the United States, Italy, and France. The fixation industry is also chiefly European, having thus far reached greatest development, by a hydro-electric method, in Germany and Norway and Sweden, and having been slightly developed, comparatively, in the United States, Italy, France and other countries. French capital is reported to be involved in the Norwegian production.

In recent years with the advance of the fixation and by-product industries in Europe the proportionate place of Chilean nitrate output in the world's industrial nitrate supply has tended to become smaller, so that the Chilean position is much less than absolutely monopolistic, when

⁵⁰ Estimated as 40%, and even as low as 31%, in certain recent years.

most broadly viewed. The Chilean supply, however, remains important, and certain other countries may be said to be dependent upon it. This is particularly true of the United States, which is much the largest single consumer of the Chilean product.³⁴

For these reasons the control which has existed in the sodium nitrate industry³⁵ has been of special significance from both the general and the American viewpoint. As far back as 1870 the Peruvian Government instituted a certain degree of control, and subsequently, under the Chilean régime, this was intermittently continued. In 1885 a convention was concluded, and combinations of producers have since existed, an agreement for this having been particularly continued by a Government statute of January 1919. The Chile Nitrate Producers' Association, it should be observed, has not been an owning corporation, but rather a non-profit making, cooperative agency. Nor has it been a compulsory syndicate, although it has embraced all nitrate producers in Chile except two American companies. But the association has controlled production and marketing through

³⁴ In 1923 the United States received 46% of the Chilean shipments, as against 48% for Egypt and all of Europe. In 1924 the sodium nitrate imports of the United States were valued at more than \$47,000,000, of which 99% came from Chile.

³⁵ U. S. Federal Trade Commission, *op cit*, Part I, pp. 194 *et seq.*, *Political and Commercial Geology*, pp. 421-426, Sec. on Nitrates, (by Gilbert C. G.), *The Annals, op cit*, p. 78, U. S. Department of Commerce, *Foreign Combinations to Control Prices of Raw Materials*, T. I. B., No. 385, 1926, pp. 32-33, U. S. Department of Commerce, *Nitrogen Survey*, including (a) *The Cost of Chilean Nitrate*, (by Bain, H. F., and Mulliken, H. S.), T. I. B., No. 170, 1924, (b) *General Review of the Nitrogen Situation in the United States*, (by Curtis, H. A.), T. I. B., No. 226, 1924, (c) *The Air Nitrogen Process*, (by Braham, J. M.), T. I. B., No. 240, 1924, (d) *The Nitrogen Situation in European Countries*, (by Curtis, H. A., & Ernst, F. A.), T. I. B., No. 270, 1924, U. S. Department of Commerce, *Commerce Reports*, October 25, 1926, art. on "The Nitrate Region of Chile and Its Ports," pp. 213 *et seq.*, U. S. Congress, *op cit* (H. R. 555), p. 14. *Vide also Appendix, infra*

allocation of quotas among its members and through price-fixing. It is of further interest that the industry is not owned exclusively by natives but that Chilean enterprises share the field with British enterprises, the latter also having been members of the association. German concerns, which are also in the field, did not at first join in 1919, but were later induced to do so by means of a cash bonus. The association was recently estimated to have control of at least 95% of all sodium nitrate production, and for international marketing purposes has maintained a committee with headquarters in London. It has also been reported that "the American-owned concerns have not joined the Association because of the American anti-trust laws, but work in accord with the Association."

The part of the Chilean Government in the arrangement has included legislative provision for the organization and operation of the association, especially by statute of 1919, the appointment of 4 of the 18 directors by the President of Chile, and the levying of an export tax. The export tax has sometimes been viewed as a governmental measure for the fortification of the monopolistic position of the association, but is probably more correctly to be considered as primarily a fiscal device which utilizes the monopolistic system, the funds thus obtained have an important place in the total revenues of that Government. The duty is a specific one which has recently amounted to approximately 20% of the sales price, and the incidence of which is generally, and apparently accurately, considered to be borne by importing countries.² The limits to the monopoly price and to the

² This export tax or duty has recently been a flat charge of \$12.34 per metric ton. Computing this at 20% of the sales price it is estimated by the U. S. Department of Commerce that business interests of the United States thus paid over \$11,000,000 in 1924. Such incidence is probably clearer in the case of imports into the United States than of those into other

import incidence of the Chilean export tax are obviously set by the growing development of the various branches of artificial nitrate industries in other countries. In the case of the United States this has suggested stimulation of the air-nitrate industry, particularly including governmental operation or assistance in the development of the large hydro-electric Muscle Shoals project begun by the Government during the World War, but in this respect there remains a cost margin within which the Chilean nitrate control effectively operates.³⁷ Due, basically, to the growing importance of artificial nitrate production in other parts of the world, the Chilean control has recently become less effective, and in 1927 a "free sales" policy was adopted. However, the association and control machinery remained in existence.³⁸

Iodine. Control in this case is associated with Chilean nitrate control, since iodine is recovered as a by-product in the nitrate fields there and since a somewhat similar organization has existed for this commodity.³⁹ Chile's production of iodine has recently averaged about 65% of world production, and about 60% of this Chilean production is normally exported to the United States, constituting all of the latter's imports. The iodine combination was instituted in 1894 and has been continued and renewed. The Combination de Yodo

countries where the artificial nitrate industry is more highly developed, and where, consequently, there is more effect of domestic competition, if not in production costs at least in transportation expenses.

³⁷ "The present price of \$48, f o b American seaboard could, by abandonment of taxes (upon which the Chilean Government is dependent), by improved methods, and by the narrowest margin of profits, be reduced to about \$35 per ton." "this is not given as a probability, but the ultimate base figure which our fixed nitrates must meet before the Chilean industry will cease to function" — H R 555, p 11

³⁸ U S Department of Commerce, *Commerce Reports*, May 2, 1927
Vide also Appendix, *infra*

³⁹ U S Department of Commerce, *Foreign Combinations to Control Prices of Raw Materials*, T I B, No 385, 1926, p 33

has been nominally voluntary, but has been "favored by the Government to such an extent that it is generally believed that any iodine producers who should attempt to remain outside of it would suffer in some direct and many indirect ways" This organization of producers has allotted production quotas, established prices, regulated exportation, and supervised sales For example, sales in the United States have been made exclusively through one concern, and the same has been true of sales in Europe The combination has not been directly controlled by the Government, but has been closely associated with the Nitrate Producers' Association, to which, as indicated above, the Government has been a party. An export tax, on a specific basis, is levied by the Government; and it is estimated that "the cost of production is a very small fraction of the present price" While there are no direct substitutes for iodine known at present, this commodity is to some extent obtained from other sources, as from kelp (a seaweed) in Japan, Scotland, and France. However, this process is comparatively inefficient and costly, and the small business success of attempts to develop the kelp reduction industry in the United States is typical of its limitations, so that the Chilean control is not without effectiveness.

GOVERNMENTAL PARTICIPATION

There are also cases of raw material controls where a government not only encourages or compels the control system, but enters directly into the business itself Some of these are cases which may be termed government monopolies, in other cases the control is not so extensive, but borders on monopoly, at least within a given area

Campher. Campher is produced in Taiwan (Formosa), Japan proper, and China, but the largest output is in

Taiwan, and the Japanese Government exercises a monopoly of the product, this monopoly having been established for Taiwan in 1899 and extended to Japan proper in 1903. The Government reserves the right to restrict production, licenses producers, requires sales of crude camphor to itself at fixed prices, reserves the sole right of refining, fixes the selling price, and makes periodical allotments to buyers in other countries.¹⁰ The United States is a large consumer of camphor, particularly in its manufacture of celluloid. Synthetic camphor has been produced in the United States and Germany, but this is only feasible when the price of the natural camphor is unusually high, and attempts at new developments of natural camphor apparently have been of limited success. Within certain price limitations, therefore, the Japanese monopoly is complete.

Mercury. Mercury is used in making drugs and chemicals, such as calomel and corrosive sublimate, as well as ship-paint, dental amalgams, and scientific instruments.¹¹ By reason of ownership of especially rich deposits at Almaden, Spain in past years has had a dominant position in the world's mercury market, and at one time had an agreement with the Rothschild interests for its sale, the Spanish Government more recently has marketed its own quicksilver. Italy, however, has a strong position in the market, through possession of deposits at Monte Amiata, reported to have been owned by the German Emperor but seized by the Italian Government during the World War, and of a mine at Idria, formerly within the Austro-Hungarian Empire but acquired by Italy as a result of the Treaty of Peace. Since the war it has been reported that the governments of Spain and Italy

¹⁰ *Annals, op cit*, pp 69-70, U S Department of Commerce, *op cit*, (T I B 385) p 34

¹¹ U S Geological Survey, *op cit*, Part I, pp 59 *et seq*.

have endeavored to form a combine for control of the world market ⁴²

Potash. Although mineral deposits bearing potash in different forms are present in various countries, including the United States, a practically complete world monopoly of commercially important deposits was possessed by Germany before the World War and is now shared by Germany and France. This monopoly and the manner of its control have caused concern in other countries because of the great industrial importance of the material, primarily as an ingredient of fertilizer, but also for use in medicine, painting, photography, dyeing and bleaching and weaving, the manufacture of soap, gunpowder, and matches, and in other branches of pyrotechnical and electrical industries ⁴³ The United States is particularly dependent upon importations of this strategic raw material, taking as much as 25% of the total output.

For many decades the potash producing industry has been subject to a centralized industrial control, latterly supplemented by political control ⁴⁴ Beginning in 1884 the German exclusive control was exercised by a common selling agency, the Kalisyndikat, which was brought into existence by law and supported by the German Government At times there have been unconfirmed reports that certain American agricultural chemical companies have purchased part interests in the German concerns which are members of the

⁴² *Annals, op cit*, p 69, *Political and Commercial Geology*, pp 337-348, Sec on Mercury, (by Ransome, F L)

⁴³ U S Geological Survey, *op cit*, Part I, pp 53 *et seq*

⁴⁴ U S Federal Trade Commission, *op cit*, Part I, pp 108-111, Part II, pp 33-37, 479-481, 509-515, *Political and Commercial Geology*, pp 411-420, Sec on Potash, (by Gale, H S, and Stockett, A W.), U S Department of Commerce, *Potash, Significance of Foreign Control and Economic Need of Domestic Development*, (by Hoar, H M) T P S No 33, 1926, and *Foreign Combinations to Control Prices of Raw Materials*, T I B 385, pp 33-34, U S House of Representatives, *op cit*, pp 10-11 *Vide also Appendix, infra*

syndicate, but it is clear that there is no American control. The Imperial Potash Law of May 25, 1910, set up a new, semi-official Potash Syndicate. This organization's functions included fixing of selling prices, determination of total quantity to be produced and of allotments of a quota of this to each producer, and determination of quantities to be sold at home and abroad, for excess over allotted production quotas taxes were to be paid to the State treasury. Government-owned works were exempted from certain of the output limitations. Export prices were not to be lower than the fixed domestic prices. The syndicate was organized as a stock company, with a parallel organization established as the exclusive selling agency of the members. In addition to this super-organization a large degree of concentration also took place within the syndicate, including production combines, banking ties, and selling combines such as the *Kalikon*. The system was fortified by a post-war law of 1919, which vested control of the entire industry in a Federal Potash Council. The German compulsory potash syndicate prior to the war exercised its control in such a way as to maintain prices above competitive level but low enough to prevent new competition and the development of new sources of supply in other countries, and to obtain higher prices from foreign than from domestic buyers.

Following the war, the Treaty of Versailles, by ceding Alsace-Lorraine to France, gave promise of breaking the potash monopoly, since some of the important deposits are in the ceded territory of Alsace. However, a similar French organization was then established, the *Société Commerciale des Potasses d'Alsace*, for control of production and sales, and a joint control was established. A Franco-German agreement of August 1924 was unique. It not only involves a practical monopoly of an essential raw material, and applies to sales in the United States, but includes as its

parties one signatory which represents an industry under the practically complete control of the German Government, and, as the other signatory a state—the Alsatian mines, with the exception of one group, having come under the ownership and direct administration of the French Government, which for a specified payment took them over from their German owners under the Treaty of Versailles ⁴⁵ The agreement contains detailed provisions for sales division covering the American market and for price maintenance. Consequently the potash monopoly is apparently as effective as formerly, even though it is participated in by two nations. In the United States this situation has been the subject of official consideration, and has led, among other things, to a Congressional appropriation of funds for investigation of the commercial potash possibilities of American mineral deposits. As yet, however, the German-French combine dictates allotments and prices of potash in the American market. Recently informal negotiations have been initiated between the German interests and the American Government, looking toward an unofficial arrangement for solving the problem involved in the American buying dependence.

Phosphates. While no world monopolistic control exists in the case of phosphates, obtained from phosphate rock primarily for use in the manufacture of fertilizers, beyond the heavy predominance of American production, a governmental attempt has been made to monopolize production in a new field reported to be of considerable potential importance.⁴⁶ The United States is much the largest producer and is a large exporter, while commercially minor

⁴⁵ U. S. Department of Commerce, T. P. S. No. 33, p. 37. *Vide* also Appendix, *infra*.

⁴⁶ U. S. Geological Survey, *op. cit.*, Part I, pp. 51 *et seq.*, *Annals, op. cit.*, pp. 70-75, *Political and Commercial Geology*, pp. 402-410, Sec. on Phosphate (by Stone, R. W.).

workings are in Algeria, Tunis, and Egypt. The industry in the United States is largely American, although it contained some German and French capital before the war. The production in northern Africa is reported to be controlled by French capital, and that of Egypt by a British company and an Italian company. However, the deposits in Nauru are thought to be very rich. This south Pacific island was mandated to the British after the World War. The phosphate concession on the island had been granted to a German syndicate, but after the mandatory transfer the governments of Great Britain, Australia, and New Zealand, in 1919, entered into an agreement for its purchase. By the terms of this agreement (1) phosphates are to be sold at cost to the three governments, the cost including administrative expenses, (2) no phosphates are to be sold directly or indirectly to any other country unless the requirements of Great Britain, Australia, and New Zealand have first been met, and (3) such foreign sales, if any, are to be at market price. Although the arrangement has been the subject of questioning in the British Parliament and by the Permanent Mandates Commission of the League of Nations, the exploitation of the Nauru phosphate reserves is being carried on under the direction of the British Phosphate Commission.

THE PROBLEM OF PUBLIC RAW MATERIAL CONTROL AND POSSIBLE SOLUTIONS

While the details of the cases and even the cases themselves change somewhat from year to year, enough has been said in the foregoing paragraphs to show that there are numerous instances of public control of raw materials in the present world economic order. These controls extend much beyond the ordinary and more or less general and normally indirect

manipulations of international trade through the familiar national foreign trade policies, to more basic arrangements for the direct manipulation of production and primary marketing. They take various forms and include varying degrees of governmental interference or governmental participation in private industrial control. Their widespread use and practical international industrial importance is shown by their application to such raw products as jute, rubber, tin, dyes, pulpwood, coffee, sulphur, nitrates, camphor, mercury, potash, and phosphates. They are not necessarily monopolistic but are frequently so, and it is their monopolistic or partly monopolistic character that serves to emphasize them and to distinguish them from the almost universal cases of governmental relation, in one way or another, to non-monopolistic basic industries. They come into public, international attention particularly when they affect the production and marketing in one country of a raw product which is essential in other countries. Indeed, that they are becoming the subject of increasing international controversy or negotiation is one of the almost countless reflections of the industrial interdependence of the world.

To the extent that these controls present a problem in the industrial affairs of various nations dependent upon the obtaining of such materials from the nations exercising control there are various possibilities of remedying the difficulty. These possible solutions of the problem may be classified as primarily national or primarily international.

NATIONAL POLICIES

A considerable number of different national policies are possible, though not all of them are highly feasible, for a nation finding itself affected by raw-material controls in other countries. As the problem has received probably greatest atten-

tion in the United States, it may be approached as an American problem for purposes of illustration. Some of the solutions mentioned below have been officially or semi-officially attempted or, more largely, suggested, in the United States.⁴⁷

Possible national policies in such cases may be summarized as follows

(1) Governmental *protest*, through diplomatic channels, or less formally and less directly. This procedure appears from actual experience to be of very limited effectiveness, and at times seems provocative of further increase in the foreign manipulation. It also involves the possible danger of inconsistency, or apparent inconsistency, in case the protesting nation is involved in any measure of its own which may be charged with being comparable. Its greatest benefit, perhaps, consists in the publicity afforded, which may cause the foreign agency to fear economic reaction, but this is apt to be offset by the possibly resulting friction in formal relations.

⁴⁷ *Vide* (1) Various above-cited and other publications of U. S. Department of Commerce and U. S. Congress, and statements by Secretary of Commerce — esp. (a) *Cruise Rubber Survey* (various T. I. B. and T. P. S. numbers), (b) *Nitrogen Survey* (various T. I. B. numbers), (c) *Annual Rep. of Secretary of Commerce*, 1923, *et seq.*, (d) Letter of Secretary of Commerce Hoover to Senator Capper, March 6, 1924, (press release of Department of Commerce), (e) *Foreign Combinations Now Fixing Prices of Raw Materials Imported Into the United States*, an Address by Hon. Herbert Hoover, before Chamber of Commerce, Erie, Pa., October 31, 1925 (press release, and printed as pamphlet), (f) Statement by Secretary Hoover before the House Committee on Interstate and Foreign Commerce Investigating Foreign Government Controls and Monopolies of Raw Material Imports Into the U. S., January 6, 1926, (press release), (g) *Foreign Combinations to Control Prices of Raw Materials*, (Department of Commerce, T. I. B. No. 385), (h) U. S. House of Representatives, 69th Congress 1st session, Rep. No. 555, House Calendar No. 132, etc. (2) Unofficial publications and statements — e. g., *American Dependence upon Imported Raw Materials*, Addresses Delivered at the 14th Annual Meeting of Chamber of Commerce of the United States, May 11, 1926, etc.

(2) *Retaliation*, which may be governmental or, possibly, private. Retaliation might be direct, and even in kind, as in similar restrictions on supplies or materials, or it might take any one of many indirect forms, as in tariff discrimination. But retaliation also is particularly apt to be conducive to friction in formal relations, and in practice may be limited, governmentally by lack of exact governmental powers and devices (as in the case of the Federal Government in the United States) and privately by lack of appropriate organizations of sufficient size or power or motive for business restriction.

(3) *Bargaining*, governmental or, possibly, private, though presumably the former. This also might theoretically take many forms, such as that of raw materials for raw materials, or other quid pro quo such as any other economic advantage for raw materials — even including financial advantage. Such procedure is to some extent subject to the same objections and obstacles as is retaliation, and in general, does not appear feasible. The United States has recently utilized a procedure, to a limited extent, which in a sense is in this or the retaliatory category although in a sense in neither. Despite the fact that no law compels financial interests to obtain government consent to proposed foreign loans, the State Department for several years has extra-legally expressed a desire to have opportunity to consider such loans before they are made, and in pursuance of this policy is reported to have prevented the issuance of American loans of approximately \$30,000,000 to the São Paulo coffee monopoly and approximately \$25,000,000 to the German potash monopoly and to have debarred British rubber-growing interests from borrowing in the American financial market. Such debarment from the benefits of the leading capital export market of the present is not unimportant,

but has not resulted in breaking the foreign monopolies, and the policy rests, not upon law, but upon implication of withdrawal of foreign-office support

(4) *International agreement*, formally concluded in documentary manner. Such agreement might involve either positive bargaining or retaliatory treatment in the event of violation. While in a given case a particular agreement to cover a specific case might or might not be feasible, it may be suggested that commercial treaties, while not confined to tariffs, tend to stress tariff treatment, and there is much to be said for the extension of the scope of most-favored-nation or national-treatment documents so as to cover practically all economic relations — industrial and financial as well as commercial — and to make them truly economic treaties. On the other hand, most-favored-nation treatment usually would not solve the nominally non-discriminatory raw material controls. It should also be observed that, aside from bilateral agreements, there is the possibility of multilateral conventions among nations dealing with the present problem. These presumably would be specific rather than general, and would deal exclusively with this particular problem, just as there is the possibility of such conventions to cover various others of the newer problems in international economic relations, such as that of double taxation, and just as a number of such conventions already exist and apply specifically to such questions as that of reciprocal patent and trade-mark treatment. Although there are limits to the effectiveness of any such devices, nevertheless with the growing complexity of international economic relations and their problems, it seems not improbable that in the near future there will be an increase in the types of both bilateral and multilateral agreements dealing with different ones of these problems.

(5) *Domestic legal action* As seen in the sisal case, domestic legal action in the country of importation may be taken against importers who are in some way parties to the scheme for price maintenance which is effected in the foreign country of production. But this presupposes applicable anti-trust laws in the country of importation, and can be done only when the importers are so involved in the "conspiracy" As a matter of fact it is probably true that in most cases the importers are not involved in any such way, in many important cases they are opposed to the foreign manipulation and are themselves the ones who, along with domestic manufacturers and ultimate consumers, suffer from it, as in the case of rubber Domestic legal action in the country of importation is, and naturally so, of limited effectiveness, since the point of control is primarily in the country of production

(6) *Economic self-help*. Within certain limits, various forms of economic self-help appear to be the most logical solutions of the present and other similar problems in international economic relations Such solutions may involve governmental assistance, as in making surveys of possible new resources which might be developed at home or elsewhere abroad, or as in possible revision of laws to permit the formation of domestic buying combines which might resist the foreign producing and selling combines, or as in propaganda for reduction of consumption. Such governmental actions involved some element of economic and possibly political danger, as is shown by the fact that the problem is largely created in the first instance by governmental measures in the other country, although it may be argued that private action in one country is not sufficiently powerful to overcome government action abroad, and that public policy must be met with counter public policy. This economic self-

help may be classified as resistance in (a) production, (b) buying, or (c) consumption. The rubber case may be taken as an illustration. Since the beginning of the Stevenson Plan restriction, it has been proposed that America develop its own rubber plantations either in its own possessions, as in the Philippines, or in other countries where foreign government control probably would not interfere, as in South America or Africa. One large American rubber consuming concern has, in fact, set out a large plantation in Liberia. The Philippine situation has been examined carefully, with respect to all factors, including soil and climate. But the principal difficulties there appear to consist of lack of a labor supply as cheap as that in Malaya and of provisions of the Philippine land laws which so limit the size of acreage obtainable by any one company that sufficiently large-scale production would not be possible. These things indicate the practical economic difficulties likely to appear in any such case, even though it may be physically possible, as sometimes asserted, to reproduce any organic industry. In the case of minerals reproduction of an industry is usually impossible, except to the theoretical extent to which chemical and mechanical science increases the convertibility of materials, although it is significant that in the case of potash it is asserted that there are resources in the United States which could supply all American potash needs if sufficiently cheap recovery methods could be put into general effect. Again, in the rubber case, it has been suggested that the Webb Pomerene Law be so expanded as to permit large buying combines which would be powerful enough in the world market to be able to combat price control by the producers even though that control may be effected by a governmental measure. The extreme form of this solution would be governmental buying, an unlikely thing in the United States. In

the last analysis, however, the dominance of producing and selling, or of buying, interests must rest upon economic facts and forces, upon such things as relative strength of supply and demand, availability of substitutes, and similar factors.⁴⁸ Finally, in the case of rubber, reduction of consumption was suggested, by means of conservation and recovery of used material, and involving government propaganda to bring it about. It has recently been asserted that a campaign undertaken along this line has been of considerable effectiveness and has influenced price. All of these measures or possible measures involve a certain degree of government assistance or encouragement, but are mainly of a private character. Such economic self-help has the particular advantage of approximating the natural economic reaction which ordinarily governs economic processes,⁴⁹ and commends itself as

⁴⁸ An American rubber-buying pool was formed in December 1926 by certain of the largest purchasers of rubber, including the United States Rubber Co., Goodyear Tire and Rubber Co., Firestone Rubber Co., Fisk Rubber Co., Kelly-Springfield Tire Co., Ajax Rubber Co., General Motors Corporation, and the Studebaker, Willys-Overland, Dodge Brothers, and Packard automobile companies. "At the time of organization a credit of \$20,000,000 was obtained from New York bankers to finance large purchases of crude rubber. The specific purpose was to protect American manufacturers against excessive prices. The formation followed the announcement of the British Government of proposed further restriction of crude rubber exports" (Washington Post, June 17, 1927). It was reported that the pool, which was to expire on August 1, 1927, was later projected eight months from that date.

⁴⁹ The following is an expression of the views of the Secretary of Commerce: "The world has often enough seen attempts to set up private monopolies, but it is not until recent years that we have seen governments revive a long forgotten relic of medievalism and of war time expediency by deliberately creating official controls of trade in raw materials of which their nationals produce a major portion of the world's supply, and through these controls arbitrarily fixing prices to all of the hundreds of millions of other people in the world. It is this intrusion of governments into trading operations on a vast scale that raises a host of new dangers — the inevitable aftermath of any such efforts by political agencies to interfere with the normal processes of supply and demand. Our experience of the last twelve months with these controls has developed a series of fundamental questions

sounder and certainly more feasible, generally, than other types of remedies

which we can no longer ignore and upon which we must determine a national policy. These questions not only concern our own welfare but also the welfare of consumers in fifty or more nations . . . I dare say that if the law of supply and demand were free to operate and prices rose equally high there would be no national feeling aroused because then the consumer realizes that this high price is stimulating production and relief is inevitable but with controlled production these forces do not operate or operate but feebly and slowly . . . There have been several alternative national policies suggested (1) It has been said that these controls are inevitable and that we as a government should bargain with them for the establishment of fair prices. This would probably involve our government in guarantees to buy the commodities at some such price and even were this avoided it would make our government a bargainer in the commodity market and would add a thousand frictions to all those which it is the business of our governmental agencies to allay (2) It has been suggested that our industries should themselves collectively bargain to establish fair prices. This also raises grave question as to whether we wish these controls to become fixed in international life and probably involves also government supervision of their bargains. Alternatively it has been suggested that (3) we might set up such combinations in our own country over materials which we control either singly or jointly with one or two other major producers, thus getting our share of the profits in this game. Any such policy would not only involve us in a thousand frictions in international relations but we would have done injustice to others . . . It is my belief that we should confine ourselves simply to a consideration of what temporary measures of relief we can find and what final and complete protection we can ultimately give our citizens through assuring our raw material at reasonable prices from competitive sources. We should thereby at the same time be giving equal protection to all consuming nations. By extension and economy in use we can reduce the volume we import if prices become unreasonable. We can better organize our purchases and our distribution among our consumers, and fortunately, the natural resources of the world, the inventions of science and the wealth of our country are such that we could with proper organization build up competitive sources of supply in most cases. In those commodities which from the nature of our climate we cannot ourselves produce we must seek to stimulate production elsewhere. In certain commodities we can find solution through synthetic chemistry. In the meantime we should be able to devise additional methods which will give some earlier relief. In my own view, these are the policies which we as a nation should follow. They open up fields of action free from trade reprisals and in fact contemplate solely defensive measures. No one can rightly complain of such activities — from statement by Secretary Hoover before House Committee, *op. cit.*, January 6, 1926

In general it may be said against the controls of materials which suggest such remedies, that they involve a difference between fair prices and unreasonable prices, that they create friction in international political and economic relations, and that they violate economic law by interfering with the normal course of production. As for the first-named charge, it must be recognized that any line between fair and unfair price is by its very nature somewhat arbitrary. On the other hand, the fair price doctrine has been developed with considerable definiteness in internal politico-economic policy systems, as in the laws of the United States. The international friction point can scarcely be denied. Thirdly, there is much validity in the assertion that the controls interfere with normal production, and in fact, by preventing normal market reactions, tend to perpetuate a natural maladjustment of production. It is for this reason that they involve some disadvantage even to the country of control, and that similar artificial measures for combatting them would seldom solve the problem and might frequently aggravate it.

Considering the matter, however, from the viewpoint of the countries exercising the manipulative controls, the control measures, while frequently unsound and illogical as well as conducive to economic hardship and opposition in the consuming countries, cannot be viewed as entirely unnatural, especially where they are adopted to stop extreme price decline and to avert disaster to an important industry. This is particularly true in the very cases of a number of raw materials affected, where the industry producing such a material is the leading industry of the country concerned, and therefore where disruption of that industry would have sweeping effects upon the exports, the trade balance, the imports, the financial structure, and, in fact, the entire economic situation; the problem is doubtless more acute for such a pro-

ducing country than it would be for a country with diversified production. Moreover, while it is commonly admitted that economic problems in the long run may best be solved by the natural economic reactions they induce, it is equally known that such reactions are often tardy and frequently severe, and it is coming more and more to be recognized that greater stability in the business cycle, within a nation as well as internationally, is a desirable objective in present-day economic arrangements. To attain this objective it is necessary at times to use devices which are not purely economic, that is, which are politico-economic, which in a measure divert or suspend the operation of natural economic forces, and which are in this sense artificial. This is recognized even in the United States, where the economico-legal institutions of private property and contract are perhaps more basically founded, and the concept of business regulation by means of normal competition is perhaps more generally accepted, than in other countries.

Nevertheless, to continue the application of what may be termed the typical American politico-economic doctrine, it is because of the very necessity of preservation of competition that the exception of public control is most frequently necessary, and this is a cardinal point in considering the question of foreign and international control. In a word, the problem of control of raw materials in world economy is a fundamental one, and such controls are open to the basic objections, on the one hand of interference with production, and on the other hand, of manipulative interference with consumption and price. Whether a given price is fair or unfair, or whether an emergency in a given industry is or is not sufficient to justify artificial valorization, may be decided only in a somewhat arbitrary way. But certain outstanding cases of manipulated price are clear enough, and

the same is true of controls which, though possibly begun during an emergency, are continued permanently after the emergency has passed and for the evident purpose of exacting a price much higher than it would be normally. Nor is it particularly to the point to urge that import tariffs are in the same category, for there is some difference between restrictions upon importation which affect consumption in only one market and controls which when exercised in one country affect all other countries using the product concerned and place certain of those countries in a position of peculiar dependence. Finally, it is doubtless true that ultimately natural economic forces would end or check such controls, by the compulsion of substitutes if in no other way, but a long period of difficulty is likely to intervene in such a natural adjustment. The wisdom of many measures designed to offset the controls may be questioned, but some indirect governmental encouragement of economic self-help, especially as in stimulation of new sources of production where practicable and in conservation of consumption, is not without justification, and at the same time national discussion of the problem is probably of some value by way of suasive effect upon the government exercising the control.

INTERNATIONAL POLICIES

Aside from, or in addition to, the national approach to this international problem, joint international measures are sometimes proposed. These may be briefly summarized as follows: (1) The nationalist solution — such a readjustment of political affiliations and boundaries that each nation might be self-sufficient in all raw materials, considering all its industries and population. (2) The "socialist solution" — the establishment of a central international organization which would purchase and distribute all necessary materials.

among individual states. The work of the "International Executives" established by the United States and the Allied Powers during the World War, is cited as a precedent. (3) The "free trade solution"⁵⁰ — the voluntary abolition by the various states of all restrictions on production and distribution of raw materials, including presumably the elimination of all limitations on exploitation of resources and all tariff and similar restrictions. The 1911 Seal Treaty is cited as a precedent for this, or even for some pooling plan.

The mere mention of the nature of the schemes is sufficient to show how far they are from practicable or feasible, and indeed how undesirable some of them would be. The question of joint international treatment of the problem may be dismissed with the observations that (4) international conference discussion offers possibilities of helpfulness,⁵¹ and that (5) as remarked above, in addition to separate national treatment of each case as it arises, the conclusion of bilateral agreements or even multilateral conventions containing reciprocally guaranteed limitation of such controls, should be beneficial and at the same time feasible.

⁵⁰ Cf. *American Journal of International Law*, Vol. 19, No. 4, pp. 739-742 ("International Control and Distribution of Raw Materials," by Anderson, Chandler P.), October 1925.

⁵¹ As remarked above, the problem of control of raw materials, like that of international cartelization, was considered at the International Economic Conference, Geneva, 1927. For its conclusions regarding export duties on raw materials, *see Resolution of the Conference III Commercial Policy and Treaties*, 3. *Export Duties*, and I — *Liberty of Trading*, 1. *Import and Export Prohibition and Restriction*, (U. S. Department of State, *Report of the Chairman of the American Delegation to the International Economic Conference, Geneva, May 4 — May 23, 1927, Annex II*).

Cf. also ff. documents (1) League of Nations, *Report on Certain Aspects of the Raw Material Problem*, by the Provisional Economic and Financial Committee (with relevant documents submitted to the Committee by Professor Gini), 2 vols., (2) League of Nations, *Report on the Problem of Raw Materials and Foodstuffs*, by Professor Gini, (3) International Labor Office, Geneva, *Papers Relating to Schemes of International Organization for the Distribution of Raw Materials and Foodstuffs*, October, 1920.

Since there is probably a much greater degree of unity in international economic processes than in international political relations, and since international economic unity, like that of given countries, rests largely upon diversity, any such scheme as that for pooling the world's resources or even for sweeping away all restrictions upon production, as upon trade, is doubtless as impracticable as such a scheme within a nation would be, and as undesirable. But the striking and increasing interdependence of the industries and populations of the world, with respect to supplies of materials as in other ways, is itself a guarantee of ultimately practical adjustments of the special problems that occasionally arise in international relations.⁵²

Indeed such interdependence, while at times spectacularly punctuated by problems such as those discussed above, is much more fully and typically illustrated by the many cases of foreign and international private exploitation of resources, which are more numerous and more natural, though less subject to public attention, these cases will be treated of in a subsequent chapter, and may be viewed as indicating the degree not only of interdependence, but of community of enterprise as well, existent in the international economic order.

⁵² N. B. For further data and references on the problem of international raw material controls, including the Franco-German potash and Chilean nitrate cases, and recommendations, on the general subject, of the World Economic Conference and of the International Chamber of Commerce, *see* Appendix, *infra*.

CHAPTER XIII

SPECIAL WORLD RESOURCE PROBLEM

PETROLEUM AND DIPLOMACY

THE INTERNATIONAL petroleum problem may well be considered separately from, and more fully than, that of any other raw material, whether publicly controlled or privately exploited, for several reasons. In the first place it is more spectacular than any of the other problems of international control of raw materials. Here there has doubtless been more energetic activity by private enterprise in the direction of foreign exploitation, and at the same time more direct involvement of such enterprise with the business activities, the legislative and administrative policies, and the diplomatic processes of leading nations, than in any other international raw material case. The problem has thus engaged much public attention, has involved world-wide activities by several world-known corporations, has had to do with the most direct type of governmental participation in private industrial business, and has caused various restrictions on private rights of foreign exploitation. It has also been the subject of much diplomatic correspondence, and has been known to have played an important part in the relations of the United States with many of the Latin-American republics, including the United States' recognition of the various governments of Mexico, in British Empire policies in such places as Burma, in British-Dutch relations in the

Pacific, and in the Near Eastern policies of Great Britain, France, the United States, and other powers, as especially illustrated in spheres in Persia, the mandating of Mesopotamia, and the treatment of Turkey at Lausanne. Indeed, there is scarcely a region of the world in which petroleum has not to some extent colored modern international policy, and the press has not unnaturally referred to "oil diplomacy."¹ If this is true, it may be that here is at least one

¹ A sample of the popular appeal, and possible exaggeration, of this question is found in the following press account — "What gold was in earlier ages to stir in man the spirit of adventure and discovery in strange lands, and of inquiry into the secrets of nature, oil is in these days. The Alchemist of the Middle Ages who sought to produce gold from a chemical compound is now metamorphosed into the chemist, who splits the molecules in order to get more gasoline out of crude petroleum. Spanish Conquistadores, 'their blood aflame with lust of gold,' who ravished the possessions of the South American Indians, are replaced today by representatives of various oil companies, who move in promising territories of the South American Continent, under protection of their country and by permission of the country visited. Instead of a gold rush like that of 1849 to the California gold-fields, or the great rush of 1896 to the Yukon gold-fields, we have the penetration of oil-seekers in all parts of the world, all moving within the law. How widespread are their wanderings may be judged from a glance at the petroleum regions of the globe . . . which shows that practically the only unspotted sections are Greenland, Iceland, and Spitzbergen."

"Publicists at home and abroad tell us repeatedly that oil is the 'paramount factor in the political economics of the day,' and they add that, in plain words, this means that besides the material ingredients of petroleum there are involved in it the moral elements of peace or war and of friendship or antagonism between races, nations, and creeds. 'Oil may soothe the troubled waters of the eternal seas,' says one writer, 'but it only adds unrest to the troubled waters of international diplomacy.' On the other hand, some eminent petroleum authorities assure us that all the talk about 'a World War for oil,' in which the two chief contenders are said to be British and American interests, is 'mere exaggeration and sensationalism.' But no one denies that since 1906 the petroleum industry of the kerosene age has become the petroleum industry of the age of the internal combustion engine, of the automobile, the airplane, and the oil-driven battleship, and this suffices as 'an explanation of the bitterest international rivalry.' 'No man knows today where oil will be found tomorrow or in what quantity,' according to A. C. Bedford, Chairman of the Board of Directors of the Standard Oil Company of New Jersey, and 'no man or

case where governments do consciously "possess an economic intelligence" which leads them into an "international struggle for resources" At the same time, while the case

group of men can restrain another from seeking oil in the earth, nor, having found it, can they restrict or augment its flow." — *Literary Digest*, January 20, 1923, pp 15 *et seq* *Ibid* — [Quoting Frederick William Wile] "Although more fragrant themes are publicly discussed oil has become the great international issue of the hour. It lurks in the background of virtually every problem now engaging the attention of world statesmen. European politics has become the politics of petroleum. Almost no move is made on that chessboard on which Prime Ministers disport themselves with the fate of nations that is not tinctured with oil. The pending situation in the Near East is saturated with oil all the way from the Persian Gulf to the Golden Horn. The Genoa Conference went on the rocks mainly because of oil intrigues. Soviet diplomacy is cunningly pivoted around Russia's vast and coveted reservoirs of oil in the Baku and the Caucasus regions. . . . Rumania and Poland, with their rich oil deposits, are factors in the situation. Persia, with some of the most extensive petroleum beds in existence, is at present the bone of contention between British and American oil interests. Wherever one looks in Europe, petroleum flares up as a paramount political issue. If oil dominates the diplomacy of Europe, it is hardly less conspicuous in the international affairs of the United States. Every important diplomatic action taken by America since the World War has been concerned, directly or indirectly, with oil. The United States protested vigorously against the Anglo-French agreement for division of petroleum in Mesopotamia and Palestine. We objected to the Netherlands Government's exclusion of American enterprise in the oil district of the Dutch East Indies. We have refused to recognize the Obregon Government principally because existing American Oil rights in Mexico are considered in jeopardy. The next United States 'oil diplomacy' may have to be conducted with Japan. The Sinclair Oil Co of New York has just obtained from the Russian Chita Government a concession for oil exploitation in North Sakhalin, which is occupied by the Japanese Army. Tokyo Foreign Office denies the right of Chita to bestow privileges within territory under Japanese military occupation. Still another Russian oil incident presently will demand the State Department's attention. The International Barnsdall Corporation of New York has received from the Soviet Government a concession to work a 500-acre oil-field in Baku country. To date the United States has declined to recognize any rights conferred upon Americans, like Washington Vanderlip, which covered Soviet confiscated properties and lands. The Barnsdall concession, it appears, applies to State Oil that never was privately owned. Thus a new Soviet-American proposition is presented which, to the cunning masters of Moscow, no doubt conjures up interesting political possibilities in the direction of longed-for American recognition."

presents some of the clearest and most telling illustrations of the present world-scope of private industrial activities and of the influence of these upon governmental policies, because of its very spectacular character and the very acuteness of its instances of international rivalry, it should be judged sanely, with special care against considering it characteristic. It is atypical, rather than typical, it is an extreme case, with all the interest that extremes present.

International petroleum control, then, may be considered in some detail because of its extensive ramifications and its particular interest. A second reason for dealing with it as a separate case lies in the difficulty of classifying it. As noted above, it involves almost every imaginable sort of private and public industrial measure, including (1) private foreign industrial activity, (2) international combines (or 'trusts'), (3) governmental regulation, (4) direct governmental participation, as well as (5) diplomatic relations, both between powers and lesser states and among the powers themselves. These forms of activity and policy are so interwoven and blended together that it is almost impossible to separate them categorically.

A third reason for according special treatment to the petroleum case lies in the technological and economic character of the industry itself. That its products are of strategic importance to all leading industrial and naval powers is a truism and could almost be assumed from the very fact that such powers evince so keen an interest in it. But this importance is magnified, and rivalry, if there be rivalry, is sharpened, by its quick-running nature. Its discovery for economic purposes dates back but a few decades, and its rapid adoption as a source of power, light, and lubrication has constituted one of the most remarkable chapters in modern industrial history. This rapid substitution for coal and

other materials was undoubtedly greatly facilitated by its physical fluidity and consequent ease of both production and transportation and consumption. Thus the physical and economic fluidity of the industry has conditioned its entire position. Production was not a matter of laborious digging, but rather of gushes and spurts, or at least of free flow from pumping. Consumption tended to expand with the same freedom and therefore often to outrun production. Consequently production in given instances has had a meteoric rise and a more or less rapid decline. Wells, oil-production districts, and even oil-producing countries have been suddenly developed and then have fallen away in output, to such an extent that there are frequently predictions of exhaustion. For example, in the United States, which is the largest producer at present, it is often asserted that national reserves will be practically exhausted within twenty-five years or less, though this estimate is the subject of much controversy among technologists. In any event, the rapid course of the industry has doubtless influenced its international phenomena. For powers possessing very small oil reserves and powers with large but rapidly exploited resources alike have turned their attention to new fields abroad. For the same reasons it is possible that the international oil problem will subside or disappear in the not far distant future.

INDUSTRIAL IMPORTANCE OF PETROLEUM

While crude or semi-refined petroleum is used to some extent as fuel for locomotive and marine boilers and even for Diesel engines, and also for lubrication of certain types, the natural product is ordinarily and in increasing proportions refined by a distillation process which, by yielding various products in order of volatility, furnishes commodities with an almost infinite variety of uses. The light-gravity ethereal

products supply anæsthetics. The naphthas are solvents and are blended with gasoline. Gasolines furnish nearly all of the present consumption of fuel for automobile, airplane, and other internal combustion motors. Kerosene, formerly largely used for illumination, and still consumed heavily for that purpose in regions where electrical illumination is not developed, is increasingly in demand for motivating farm tractors. The lubricating oils, so necessary in all modern machinery, have practically no substitutes, except in a few rare cases where a vegetable oil is used. Fuel oils replace coal for heating boilers in manufacturing and steam railway and steam vessel transportation. The waxes, if the crude is of the paraffin-base type, supply preservatives, illumination materials, and surgical dressings. Road oils are obtained from some types of crude petroleum. Petroleum-coke for metallurgical processes, battery carbons, and arc-light pencils conclude an incomplete list of petroleum products. "Coal, which controlled the commerce of the world in the last century, is already of less international concern than petroleum. Fuel oil and gasoline are now commercial necessities, and national leadership on the sea and in the air appears to be absolutely dependent upon the possession of adequate supplies of these two commodities."² Substitutes for the supplies of crude petroleum and its products do not appear to be readily available. As a source of fuel, petroleum competes with wood, charcoal, coal, peat, natural and artificial gas, and electricity generated from coal or water power. It is thus by no means the sole or principal source of industrial energy. But it has won a distinctive place in some fuel uses, as in the case of gasoline for automotive and other internal combustion motors, and the development of the Diesel motors is increasing, while the advantages of fuel

² U. S. Geological Survey, *World Atlas of Commercial Geology*, Part I, pp. 17 *et seq.*

oil as a substitute for coal in industrial and naval use give it a place of growing and even strategic importance. In the case of Diesel motors, it has been demonstrated that vegetable and fish oils can be used. For internal combustion engines gas and alcohol have been actually substituted at times, and it is physically possible to produce alcohol from a great variety of vegetable materials, although this is only practical where the price of gasoline in a given instance is high. Illumination is obtained from natural and artificial gas, from electricity generated by coal and water power, from oils distilled from coal, and from animal fats. Yet in none of these cases is there an easy economic substitution, and in the case of lubrication, while certain carefully refined animal and vegetable oils may be used, it is generally considered, technologically, that there is no real substitute, especially for high-speed bearings and lubrication in the presence of high temperatures in machinery. There are large reserves of oil shale throughout the world, including especially the United States, but the process of extracting oil from shale is expensive and thus far has been practically developed only to a limited extent in several countries, such as Scotland, and to a very small extent in the United States, although if the price of petroleum products should become high enough this industry might become a large one. It is of the very nature of things that economic phenomena constantly shift with other changes in human activities — they are in a sense reflections of such changes as they affect individual and national livelihood, and there is a law of comparative costs for industries as well as regions. Nor is the so-called industrial revolution yet ended, it is rather continuing at accelerated pace. Changes in industrial technology, or relative exhaustion of petroleum resources, might in a comparatively short time reduce or abolish the importance of petroleum, which change might in turn alter national policies as well as

individual activities. But as conditions exist today, petroleum has a unique position of commercially strategic significance which influences international policies in a manner nothing short of the spectacular.

RESERVES AND PRODUCTION

Estimates of the petroleum reserves of different countries vary greatly, and there are many regions where the resources are far from definitely known and where, despite much prospecting by geologists and by the leading petroleum companies of the world, they are only supposed to be "small" or "large." Steady decline and apparent approach toward exhaustion of many old fields and not infrequent discovery of new fields or new possibilities in undeveloped fields have characterized the brief history of the industry.

The United States and Rumania are credited with the first commercial production in 1857-59, but the wells of the United States were so rapidly and extensively developed that by 1913 they were yielding nearly 65% of the total world output, this world total having grown steadily and speedily to well over a third of a billion barrels. Meanwhile other regions had entered the list, including particularly Russia and Mexico, and also the Dutch East Indies, India (Burma), Galicia and others. During and after the World War the world output continued steadily to increase, so that a decade later it had passed the billion barrel mark, with a smaller proportion in Russia, with a much larger but apparently declining proportion in Mexico and increased production in several other regions such as the Dutch East Indies and Persia and with a tremendously augmented output in the United States. By 1927 the world total had further increased and the production of the United States had come to constitute, as in 1923, more than 70% of the total, with

³ *Vide, The Mineral Industry* (edited by Roush, G. A.), current edi-

other producing regions including Mexico, Russia, Persia, the Dutch East Indies, Venezuela, and Rumania, with fairly important production in India, Poland, Peru, Sarawak, Argentina, Trinidad, Japan and Formosa, and Egypt. Small amounts are produced in Germany, France, Italy, Canada, and other scattered countries ⁴

tion, for complete table of "world's marketed production of crude petroleum in barrels of 42 U. S. gallons," from 1857 (Note: These figures do not exactly coincide with those published by the Geol. Survey in the *World Atlas* and those published by the Department of Commerce in the *Commerce Yearbook*)

⁴ Amounts have been as follows

WORLD PRODUCTION OF CRUDE PETROLEUM *
In thousands of barrels

Country	1913	1923	1924	1925	1926	1927
TOTAL	385,345	1,018,620	1,013,623	1,067,566	1,096,608	1,254,952
United States	248,446	732,407	713,940	763,743	773,000	903,800
Mexico	25,696	149,585	139,678	115,515	90,000	64,120
Russia	62,834	39,156	45,355	52,448	61,000	72,400
Venezuela		4,201	9,042	19,687	37,226	64,400
Persia	1,857	28,326	32,373	35,038	35,460	39,200
Rumania	13,555	10,867	13,369	16,646	23,299	26,300
Dutch E. Ind.	11,172	19,868	20,473	21,422	22,200	21,400
Peru	2,071	5,699	7,812	9,164	10,782	10,000
India	7,930	8,320	8,416	8,000	8,728	8,200
Argentina	131	3,400	4,669	5,818	6,500	8,700
Colombia		424	445	581	6,446	15,000
Poland	7,818	5,402	5,657	5,960	5,835	5,300
Trinidad	504	3,051	4,057	4,654	4,971	5,380
Sarawak	141	3,940	4,163	4,257	4,300	5,000
Jap. & Formosa	1,940	1,805	1,814	2,000	1,900	1,700
Egypt	98	1,054	1,122	1,226	1,161	1,235
Other Countries	1,152	1,115	1,238	1,407	800	

* Figures for 1913-26 incl. are from U. S. Department of Commerce, *Commerce Year Book 1926* (pub. 1927), figures for 1927, from estimates in bulletin of American Petroleum Institute (250 Park Ave., New York), February 29, 1928.

NOTE — It has been predicted that Mexican production will be about 45 million barrels in 1928, that Venezuelan production will be about 100 million barrels in 1928 and in the near future may reach the rate of one million barrels per day.

The changing nature of the world oil picture is reflected in various shifts, from time to time, in the amounts of crude petroleum production in the various countries. The world total output has increased steadily in recent times, except for a decline in 1924. This is also true of the extremely large production in the United States, which, after continual expansion year after year, in 1924 dropped below the figure for the previous year. Some observers at that time concluded that the peak had been passed and that the decline would continue, due to resource exhaustion. However, in 1925 and subsequently there were substantial increases, and in 1927 the United States was still producing over 70% of the increasing world total. Significant increases have also occurred in Rumania and Russia. The most spectacular recent changes, no doubt, have been the marked decline in Mexican, and the rapid rise in Venezuelan, production, especially since 1921. In 1926 the Venezuelan output was still less than half that of Mexico, but in 1927 it approximately equalled the latter, and it has been predicted that the 1928 figure for Venezuela will be more than twice as large as the Mexican one. It is sometimes suggested that the political difficulty between Mexico and the United States over American oil rights has caused the decline in Mexican output, on the other hand, petroleum interests points to the exhaustion of many Mexican wells. In any event the change is significant. The Mexican fields were rapidly developed after 1904 until they came to contribute a crude petroleum output second only to that of the United States. Particularly did they come to furnish large crude exports to the United States for the supplementing of the latter's extensive refining business, domestic consumption, and export trade in refined products. Of equal significance is the fact that American interests became the dominant ones in the exploitation of the Mexican oil

fields Finally, the rapid decline of given fields in various countries again suggests the prediction, sometimes made, that the world's petroleum will be practically exhausted within another generation, a prediction sharply controverted by other mining experts Regardless of such controversies, however, striking changes in production take place from year to year, and these help to explain the position of the powers, and their efforts, in various forms, at petroleum control, whether this be a permanent or a passing phenomenon in international affairs

POSITION OF THE INDUSTRIAL POWERS

As a final phase of the background against which run the processes of international petroleum control it is to be observed that the United States is the only leading industrial power which at present has a petroleum output at all approaching its own needs Production in the United Kingdom, Germany, France, Italy, and Belgium is either small or negligible.

The outstanding proportion of the world total of crude petroleum produced in the United States has been noted. This output, supplemented by imports of the crude product, sustains much the largest refining industry, domestic consumption, and export trade in refined products in the world. Outward shipments are particularly large in the case of gasoline kerosene, gas and fuel oil, and lubricating oils They go to a great number of countries, in every part of the world, including, interestingly enough, certain non-industrialized ones which have a surplus of crude production. Kerosene is largely shipped to non-industrialized countries But it is of special significance that these exports move in largest quantities to the United Kingdom, and in important quantities to France, Germany, Italy, Belgium, and Japan

On the other hand, it is almost equally significant that the United States depends upon Latin-American neighbors for this supplemental supply of crude oil, and particularly upon Mexico, where production is declining. Thus it appears that the leading industrial powers other than the United States for the most part obtain greatly insufficient supplies of petroleum and petroleum products from their domestic fields and even from fields in their colonies and foreign fields which their private enterprise has entered, and are dependent upon the United States for oil. But it is also evident that the American export position is in turn one, not of sufficiency⁵ but of some dependence upon crude imports. It is these basic facts of production and trade, together with those of the very considerable adoption of oil in manufacture, in railway and merchant vessel transportation, and in automobile transport as well as in use by vessels of navies and airplanes of armies and navies, together also with the fact of decline in oil output in older fields, that account for public, and help to account for private, international petroleum control.

PRIVATE AND GOVERNMENTAL FOREIGN EXPLOITATION

The remarkably extensive private exploitation of petroleum resources, in both a foreign and a purely international way, as well as the participation of governments in such activities in private industrial capacity, may be observed by noting some of the principal companies and some of the principal countries

⁵ Cf. *Report of the Federal Oil Conservation Board to the President of the United States*, Part I, September, 1926.

COMPANIES

There are a number of extremely large petroleum companies and combinations operating throughout the world. Aside from the several Standard Oil Companies of the United States (especially the Standard Oil Company of New Jersey), the largest of these are British.

Most famous is the organization known as the Royal Dutch-Shell group or syndicate, a British-Dutch combine with scores of affiliated and subsidiary companies operating in many countries throughout the world.⁶ Its parent companies were the "Royal Dutch Company"⁷ and the Shell Transport and Trading Company, Ltd (British). The Royal Dutch Company was organized in the Netherlands in 1890 for the development of petroleum lands in the Dutch East Indies, where, through its activities and by means of exclusion laws, it has come to dominate if not practically to monopolize oil production. Some of its shares are foreign owned, including the so-called "New York shares," but it is under Dutch control, with British affiliations. It is a holding company, and owns stock in the Shell Transport and Trading Company and many other concerns, and, incidentally, in several American companies. In 1907 it became affiliated with the Shell Transport and Trading Company, Ltd (British), which had been incorporated in England in 1897 for transporting and distributing business. These two companies, acting with Russian Rothschild interests, in 1903 formed the Asiatic Petroleum Company as a distributing agency for a certain part of their trade. When the affiliation occurred in 1907 two new companies were organized, the

⁶ U. S. Federal Trade Commission, *Report on Foreign Ownership in Petroleum Industry*, February 12, 1923, pp. XI-XV, 3-32, 65-69, 132.

⁷ The Koninklijke Nederlandsche Maatschappij tot Exploitatie van Petroleumbronnen in Nederlandsch-Indië.

Bataafsche Petroleum Company and the Anglo-Saxon Petroleum Company, and these concerns took over the properties of the Royal Dutch and the Shell, which then became holding companies. The joint British-Dutch control took the form of joint stock ownership, the Royal Dutch Company owning 60% and the Shell Company 40%, of the stock of the two newly formed operating companies. Since that time the Royal Dutch-Shell group has extended its activities to include more than 100 subsidiary and affiliated companies owning and operating oil fields,⁸ refineries, compression plants, storage facilities, pipe-lines, and auxiliary businesses in numerous countries in Europe, the Near East, the Far East, and Latin America. The combine owns or controls over 700 miles of trunk pipe-lines in the United States and over 200 miles of pipe-line in Mexico, aside from major operations in other parts of the world. It owns or controls over 1,000,000 tons of tankers, barges, and tugboats, as well as more than a hundred fuel-oil bunkering stations located at all important seaports throughout the world, including a number of ports of the United States.

That the policy of the group has steadily contemplated activities of much more than purely British and Dutch scope is clearly indicated in its statements.⁹ The Chairman of the Shell Company said at an annual meeting of the company in 1913: 'The business is world-wide, and we are determined that the great distributing organization which we have created shall not be dependent upon any one field, or upon any one country, or upon any one government. We shall en-

⁸ In 1921 the Royal Dutch-Shell group controlled the following proportion of production: In U. S., 5%, in Dutch-East Indies, 97.2%, in British Borneo (Sarawak), 98.5%, in Egypt, 100.0%, in Rumania, 28.5%, in Venezuela, 100.0%, in Mexico, 26.6%, in Trinidad, 15.9%, world total, 117.0%. U. S. Federal Trade Commission, *op cit*, p. 16.

⁹ *Ibid.*, pp. 12-13.

deavor to acquire oil territories, so essential to the support of our organization, wherever they can be found" The annual report of the Royal Dutch Company, for 1920 stated "It needs hardly to be mentioned that the American petroleum companies also realized, although too late, that it was not sufficient to have a large production in their own country As regards our own group in this respect its business has been built up primarily on the principle that each market must be supplied with products emanating from the fields which are most favorably situated geographically. It goes without saying that we are now reaping the benefits resulting from this advantageous position. In order, however, to maintain our position in the world market it is not sufficient to be satisfied with the advantages already obtained. We must not be outstripped in this struggle to obtain new territory. Our interests are therefore being considerably extended; our geologists are everywhere where any chance of success exists."

This combine, with its remarkable ramifications and world-scope of activities and policies, is thus one of the outstanding cases of international industrial organization. On the other hand, while it has a practical monopoly in certain fields, it by no means possesses a world monopoly.

Other large companies and combines operating internationally include the Standard Oil Company of New Jersey and other Standard Oil companies of the United States which were separated by a Supreme Court decision, several other large American companies, and the Anglo-Persian Oil Company which operates in Persia and is largely British, with ownership of a majority of voting stock by the British Government. Although there are many other companies and groups of companies throughout the world, it might be said that the field of private international petroleum con-

rol presents two outstanding groups, the Royal-Dutch Shell interests (British) and the Standard Oil Interests (American), with other organizations, such as the Anglo-Persian and several other British concerns, and several other large American concerns, occupying a prominent place. If it were accurate to narrow the matter down and to call it a rivalry between the interests of two leading industrial powers—and it is not strictly accurate—it would be said that the two great competitors are British and American. But the organization of the most prominent concerns in the world petroleum field is interesting, since they present cases of extremely extensive foreign activity, since the Dutch-Shell case is a remarkable one of international affiliation, and since the Anglo-Persian case is one of direct and active participation with private enterprise of a prominent government in foreign development of a leading raw-material industry. The importance of these companies and their activities will be more fully discovered in a survey of the situation in the various parts of the world.

COUNTRIES

There are very few petroleum producing countries in which foreign petroleum interests are not active to a greater or less extent.¹⁰ and this includes not only the so-called economically 'backward' regions which are fields of more or less general foreign exploitation, but also economically advanced and more or less industrialized countries possessing, incidentally, highly developed governments, such as the United States. These activities of foreign interests take a variety of forms, such as the direct ownership or lease of petroleum-bearing

¹⁰ *File U.S. Federal Trade Commission, op cit*, esp pp 17-19, Spurr, J. E. (ed) *et al*, *Political and Commercial Geology*, section on Petroleum (by Northrop, John D.), pp 1-21.

land, the holding of concessions, and the ownership of refining and pipe-line facilities. They are mostly private, but as noted above they involve in some cases actual participation of governments, and in important instances are supported by diplomatic and other political influence.

A brief picture of the situation as it existed some years ago (1917) may be obtained from an estimate compiled on the basis of percentages of production in that year.¹¹ This estimate may be summarized as follows:

<i>Country of Production</i>	<i>% of world Production</i>	<i>Country exercising political control</i>	<i>Nationality of dominant interests</i>	<i>Approximate % of control by dominant interests</i>
U. S.	66.17	U. S.	U. S.	96
Russia	13.62	Russia	British-Dutch	40 +
Mexico	10.91	Mexico	U. S.	65
Dutch East Indies	2.55	Holland	British-Dutch	100
India	1.59	British Empire	British	100
Persia	1.36	Persia	British	100
Galia	1.18	Poland	German	100
Japan and Formosa	0.57	Japan	Japanese	100
Rumania	0.55	Rumania	British-Dutch	36
Peru	0.50	Peru	U. S.	70
Trinidad	0.32	British Empire	British	80
Argentina	0.23	Argentina	Argentinian	100
Egypt	0.20	British Empire (?)	British-Dutch	100
Germany	0.20	Germany	German	100
Canada	0.04	British Empire	U. S. ¹²	80 —
Venezuela	0.03	Venezuela	British-Dutch	80 (?)
Italy	0.01	Italy	French	96

¹¹ *Ibid.*, pp. 10-11

¹² By control of refining facilities

This estimate is only an approximate one, and is of course subject to corrections to bring it to date. For example, Soviet nationalization changed the situation in Russia, Galicia was transferred to the new state of Poland, and the British protectorate over Egypt was withdrawn. But the summary presents a picture of the situation as it had come to exist at the time, and with allowance for subsequent changes affords a rough sketch of the fabric of foreign exploitation even since that time.

Mexico, for a time the second largest producing country, offers an instance of mixed foreign exploitation, including largely interests from the United States such as the Standard, Sinclair and Texas groups. British interests consisting chiefly of the Mexican Eagle Oil Company, and British-Dutch interests in the form of La Corona Company and others. By 1917 the ratio, on the basis of the output, was estimated as, American interests about 65%, British about 30%, and British-Dutch about 2%. In 1923, the ratio, on the basis of investments, was given by the official organ of the Department of Finance and Public Credit as, American (U. S.) companies 58.2%, British companies 33.1%, Dutch companies 6.8%, Mexican 1.1%, and all others 0.8%.

Elsewhere in *Latin America*, as in Mexico, British and British-Dutch interests and interests from the United States share industrial control with native concerns, with United States interests in the lead. In *Central America* United States concerns dominate, particularly through Sinclair interests in Costa Rica and Panama and through the Sun Company in the neighboring countries. *Trinidad* is a British possession, and at one time British interests were estimated to have control of more than 50% of production and British-Dutch nearly 25%, but United States interests followed with approximately 20%. In *Peru* the Standard Oil Com-

pany of New Jersey, through a Canadian subsidiary — the Imperial Oil Company, — apparently is well in the lead, but the shipments of its output go mainly to Canada, and British and Italian interests have also been active in production. Standard and other United States interests also predominate in *Colombia*. In *Venezuela* both British-Dutch and United States interests have developed production.

Canadian production is relatively small and apparently in British and Canadian hands, but pipe-line and refining facilities are largely controlled by the Imperial Oil Company of Canada, the subsidiary of the Standard of New Jersey.

Control of oil production and producing areas in the *Dutch East Indies*, highly important, is decidedly British-Dutch, through the monopolistic position of the Bataafsche Petroleum Maatschappij, a subsidiary of the Royal Dutch-Shell group. In fact it was the development of this field that gave birth to the Royal Dutch Company, the subsidiary Batavian Petroleum Company, the entire Royal Dutch-Shell group, and the important marketing subsidiary, the Anglo-Saxon Petroleum Company, Ltd.

Production in *China* is practically nil, the Standard has had several concessions, but producing prospects have not been good thus far.

The production of *British India*, largely Burmese is important, and is in the hands of the Burma Oil Company, which is British and partly owned by the Anglo-Persian Company, which in turn is partly owned by the British Government. The fields of *Persia* were formerly striven for by Russian and British interests, with the Russians predominating in the north and the British in the south, and with much reported diplomatic pressure in the rivalry, the Russian interests were largely unsuccessful and the very important production there long since came to be almost entirely that

of the Anglo-Persian Company, which is British and in which the British Government owns the majority of voting stock. Regardless of the establishment and withdrawal of a British protectorate, *Egyptian* production is mainly if not entirely that of the Anglo-Egyptian Oilfields, Ltd., a subsidiary of the Royal Dutch-Shell group.

In *Russia* companies of various nationalities operated prior to the revolution. They apparently included British-Dutch, British, Franco-British, and possibly German interests, the last-named involved in control of a Belgian company by a German bank. It has been estimated that in 1914 the Russian General Oil Corporation, a British holding company with about 20 subsidiary and affiliated concerns, produced about 21.5% of the total output, and the Royal Dutch-Shell group about 16.4%, not including other smaller British interests. Since the moderation of the nationalization policy there have been rumors of Soviet oil concessions to various foreign interests including groups from the United States, but there is some doubt as to the exact facts.

The case of *Rumania* is not entirely settled. According to some reports the pre-war oil production there was largely German but with some British-Dutch control, and later measures somewhat of the nationalization type were supposed to have dispossessed foreign interests at least to some extent. Data probably more reliable indicates that before the war three companies produced about 70% of the total oil production, these companies being, the Astra Romana (29%) — a Royal Dutch-Shell subsidiary, the Romana-Americana (22%) — a subsidiary of the Standard of New Jersey, and the Seana-Romana (20%) — controlled by the Deutsche Bank. The last named later came to be owned by Rumanian, French, and English interests. Despite failure of agitation for nationalization, a decree of 1918 ex-

propriated some areas of land from native and foreign owners and these were resold to peasants, but clearly foreign interests have by no means been eliminated there. The fields of Galicia, now in the state of *Poland*, were formerly largely owned by German and Austrian interests, but since the war French and Swiss capital has been invested there.

The petroleum resources of *Mesopotamia* and other parts of the former Turkish Empire are of interest by reason of their potential, rather than present, production. They have been the subject of most interesting diplomatic consideration and agreements, as will be noted below.

Production and reserves in western Europe are relatively unimportant.

The *United States*, the world's largest producer of petroleum and largest producer, consumer, and exporter of refined petroleum products, and the home of industrial interests whose activities in the development of foreign fields have been of major rank, is not entirely free from domestic production by outside interests. British-Dutch and British concerns produce from American wells an amount estimated, from time to time, at 2 or 3% of the national output.

Facts disclosed in a recent government investigation were briefly these:¹³ The British-Dutch interests have been particularly represented here by the Asiatic Petroleum Company and the Shell Union Corporation. The Asiatic Petroleum Company is, as stated above, a subsidiary of the Royal Dutch-Shell group, and exists largely for distributing that group's products. In the United States it is chiefly engaged in the oil bunkering business, and has various subsidiaries in this country, such as the Asiatic Petroleum Company (New

¹³ U. S. Federal Trade Commission, *op. cit.*, pp. XIII-XV, 33-38, and 69-89.

York), the Asiatic Petroleum Company (Delaware), and the New Orleans Refining Company. This is on the distributing side

On the other side, of production, before the World War foreign interests were active in the development of petroleum properties, especially in the mid-continent, California, and Wyoming fields. Most notable was the acquisition by British interests of an option on an interest in the Union Oil Company, of California. This option was later conveyed to the Union Oil Company, of Delaware. In 1922 the Union Oil Company, of Delaware, the Roxana Petroleum Corporation, and the Shell Company, of California, together with their subsidiaries, were merged, and the Shell Union Oil Corporation was organized. Later the Union Oil Company of Delaware, which was domestically controlled, was dissolved, but some of its shares were absorbed by the Shell Union Oil Corporation. The American stockholders of the Union Oil Company, of California, organized an American-controlled holding company (the Union Oil Associates) to prevent foreign acquisition of control of that company, apparently with such success as to permit an ownership of only 26% of the stock of the Union Oil Company, of California, by the Shell Union Corporation. Thus the merger failed to give complete control of the several companies involved to the Royal Dutch-Shell subsidiary. However, this entire corporate adjustment was significant, since the Shell Union Corporation has other American subsidiaries and is apparently under the practically complete control of the Royal Dutch-Shell group, and the net result was that, by "merging practically all of its American operations under this newly organized corporation, the Royal Dutch-Shell holdings rank among the largest in the petroleum industry in the United States." This foreign wedge in the American oil business

has not yet resulted in any large percentage of foreign control of current production, but the ultimate operating results remain to be seen

In this consideration of the question of private and public foreign oil exploitation, it should also be noted that proposals have been made for a more direct participation by the Government of the United States in oil development in other countries. In 1920, when there was the first considerable discussion in the United States of alleged discriminations against American nationals in petroleum exploitation abroad, of the activities of foreign oil companies in the United States, and of the participation of governments in companies developing oil in countries beyond their own political jurisdiction, a unique scheme was suggested for similar participation by the American Government, apparently not for profit but for insuring future American supplies of the commodity. The so-called Phelan Bill,¹⁴ introduced May 17, 1920, would have authorized the establishment of a quasi-governmental "United States Oil Corporation" for the development of the oil resources of foreign countries. The capital would have been privately subscribed, with the requirement that, while foreign nationals could become minority holders, the majority of the stock must be owned by American citizens. The corporation would have been given wide scope in the production, refining, and transporting of petroleum and petroleum products, and would have been permitted to form subsidiaries. The directors, however, would have been appointed by the President of the United States, the corporation would have been subject to governmental demand for reports, and its products would have been subject in whole or in part to preemption by the United States Government at prevailing

¹⁴ U. S. Senate, 66th Congress, 2d session, S. 4396, "A Bill Authorizing the Incorporation of the United States Oil Corporation"

market prices. From the purely business point of view it may be questioned whether private capital could have been induced to enter such a corporation, so largely subject to governmental control and apparently without any direct and special advantages to offset that handicap. From the point of view of national policy, however, the adoption of any such plan seems extremely unlikely, in view of the traditional tendency of the American Government, with a few exceptions, to avoid direct participation in either domestic or foreign business. The proposal may perhaps be looked upon as a counter to the moves of governments of other powers in the strategy of petroleum.

POSITION OF THE LEADING POWERS

If the foreign extension of industrial and politico-industrial interests in the petroleum fields of the world may be viewed, as is so often done, as a struggle between the great powers, with the United States and Great Britain completely if not almost exclusively dominating the entire situation, the following brief synopsis, made in 1923, of proportions of reserves (rather than production) is of interest.¹⁵ United States 14%, Mexico 6.4%, South America 18%, British Empire 8.4%, Persia and Mesopotamia 8%, Dutch East Indies 5%, Russia 8%, China and Japan 6%. Rearranged partly along strategic lines, this estimate appears

United States and Mexico	21%
British Empire, Mesopotamia, Persia and Dutch East Indies . . .	21%
South America	18%
Russia, China and Japan	14%

Allowing for British interests in Mexico and for British and American interests in South America, these approximate figures would give to Great Britain and the United States, respectively, both leading and roughly equal shares in world oil resources and potential production, as against a large predominance of American interests in present production. These facts, with the fundamental fact of the strategic importance of petroleum, do much to explain so-called oil diplomacy

PETROLEUM POLICIES OF GOVERNMENTS

NATIONAL RESTRICTIONS ON PRODUCTION

It is significant to observe that, contrary to the general impression, apparently there are no countries in the world that practice nominal legal discrimination in favor of aliens of one nationality and against aliens of another nationality in the matter of petroleum exploitation. The case of the San Remo agreement, to be noted below, is probably "the nearest approach to this sort of discrimination," but it is a case of somewhat different sort of significance. On the other hand, many countries have set up complete or partial general exclusion of all aliens in this respect, and in certain instances this is believed to amount to practical discrimination, as in the case of the Dutch East Indies, where the position of a subsidiary of the Royal Dutch-Shell group gives an indirect but effective entrée to British interests. There is the further question of reciprocity in privileges of exploitation, the United States Government having pointed out that prior to 1920 and even subsequently foreign nationals have enjoyed greater freedom in petroleum development within its borders than American nationals enjoy in certain other countries, the reciprocal provisions of the Act of 1920 applying only to Federal lands.

Since the World War there has been some moderation of nationalistic war-time measures in several countries. The restriction situation as it has more recently existed in the various countries may be briefly surveyed.¹⁶

The *British Empire* presents different conditions, varying from entire non-exclusion to complete but legislatively non-discriminatory exclusion. It should be noted, however, that administrative actions may be just as effective as laws in closing the door. At the time of an inquiry into the matter by the Government of the United States, the British Government made public correspondence reading in part as follows.¹⁷

EARL CURZON TO SIR A. GEDDES (Washington)

Foreign Office, April 21, 1921

Sir, I transmit to your excellency herewith copy of a memorandum which has been prepared by the petroleum department dealing with the general petroleum situation.

2 In view of the public interest in the question of petroleum supplies and in the policy of His Majesty's Government, an attempt has been made to give in this memorandum a summary of the conditions now existing in this country, in other parts of the British Empire, and in various foreign countries. The memorandum will be laid before Parliament, and you are at liberty to make use of the facts contained in it in replying to any inquiries which you may receive on the subjects dealt with.

I am, etc.,

CURZON OF KEDLESTON

¹⁶ U. S. Senate, 66th Congress, 2d session, Senate Doc. No. 272, *Message from the President of the United States, transmitting, in response to the Senate resolution of March 10, 1920, a report by the Secretary of State, with accompanying inclosures, in regard to restrictions imposed by certain foreign countries upon citizens of the United States in prospecting for or acquiring lands containing petroleum within the territory under the jurisdiction and influence of such countries*, May 17, 1920, U. S. Federal Trade Commission, *op. cit.*, pp. 15-22, and 39-64.

¹⁷ *Dispatch to His Majesty's Ambassador at Washington, inclosing a Memorandum on the Petroleum Situation*, Earl Curzon of Kedleston to Sir A. Geddes, Foreign Office, April 21, 1921.

The figures which have been quoted indicate that, although the consumption of Great Britain per head is only about one-sixth of that in the United States, her requirements are, nevertheless, very large, and are at present met almost wholly from foreign countries at an extremely high cost. Much has been written as to the so-called "closed door" policy in the British Empire, but even if such a policy was in force it would surely not be difficult to find arguments in its favor in view of the very serious position of the British Empire as regards petroleum supplies. It is proposed, however, to deal with each part of the Empire in turn, stating also the position of Egypt, and to show what the charge as regards the "closed door" really amounts to. At the same time a brief note will be given of the production and prospects of each territory.

On the basis of this memorandum and of the several compilations made by branches of the American Government, the oil restriction situation throughout the British Empire may be summarized as follows:

Each dominion or colony has its own legislation on the subject of the petroleum industry. Because of the practical importance of the fields there, restrictions in Burma are perhaps of chief interest. The British government itself frankly states that in British India, "prospecting or mining leases have been, in practice, granted only to British subjects or to companies controlled by British subjects." Exclusion in Burma was established by a proclamation signed by Queen Victoria and Lord Salisbury, Secretary of State for India, on September 24, 1884, and on August 23, 1885, a blanket concession was given to the Burma Oil Company, Ltd., protecting it from competitive exploitation by outside enterprise for 99 years.

As noted above it is most significant that the Burma Oil Company is partly owned by the Anglo-Persian Oil Company, of which in turn the British Government owns the controlling stock. It is consequently not strange that American

interests have been unsuccessful in attempts to obtain oil concessions in British India, and that in 1902 an American Consul General was informed that the Government of India did not desire "to introduce any American oil companies or their subsidiaries into Burma." It was even reported that at one time the Shell Company endeavored to obtain a concession in Burma and that this was denied because it was feared there was a combination between that company and the Standard Oil Company, of the United States.

In Brunei (British Borneo), Nigeria, British Guiana, British Honduras, and Trinidad, "in the case of private lands there is no nationality restriction, but the lessees of Crown or alienated lands (lands, the surface of which has been alienated by the Crown for agricultural purposes since January 17, 1902), must be British subjects or a British-controlled company." Exploitation in the northern territory of Australia is confined to British registered companies, and apparently the same is true of western Australia, while in Queensland petroleum is the property of the Crown. The Australian Government is reported to have contemplated exclusion of all aliens from oil operations in mandated New Guinea. In British East Africa apparently all aliens are excluded and in the Gold Coast colony concessions are granted only to British subjects or British-controlled companies. In the Federated Malay States, although there are no specific restrictions, concessions apparently are granted only on approval by the British Government. In Canada petroleum exploitation is limited to British-registered companies and a law was recently passed similar to the 1920 reciprocity law of the United States, but the operations of a subsidiary of the Standard Oil Co. have been noted. Seemingly there is no legislative nationality restriction in British North Borneo, Sarawak, Somaliland, Jamaica, Barbados,

Union of South Africa, New Zealand, or the United Kingdom. On the other hand, it has appeared to be the British policy to attempt to practice complete alien exclusion in the mandated areas, although correspondence with the American Government appears to have modified, at least nominally, this attempt.

The above summary indicates a mixed situation throughout the British Empire in the matter of foreign oil exploitation, with certain cases of non-exclusion, and certain cases of exclusion, that is, with a considerable amount of discrimination between British nationals and foreign nationals although apparently without any discrimination between nationals of third countries—if, indeed, the former may properly be termed discrimination in the strict sense of the word. However, the facts reviewed above have to do largely with legislative provisions, and probably do not and cannot adequately picture the entire situation as it is affected by regulations and discretionary administrative actions.

Taking all factors into account, the United States Department of State has stated ¹⁸

In general each dominion and colony has its own legislation on the subject of the petroleum industry.

The policy of the British Empire is reported to be to bring about the exclusion of aliens from the control of the petroleum supplies of the Empire and to endeavor to secure some measure of control over oil properties in foreign countries. This policy appears to be developing along the following lines, which are directly or indirectly restrictive on citizens of the United States.

1. By barring foreigners and foreign nationals from owning or operating oil-producing properties in the British Isles, colonies, and protectorates.

2. By direct participation in ownership and control of petroleum companies.

3. By arrangements to prevent British oil companies from selling their properties to foreign owned or controlled companies.

¹⁸ U. S. Senate, *op cit*, p. 4.

4 By orders in council that prohibit the transfer of shares in British oil companies to other than British subjects or nationals

It is understood that the British Government has a controlling interest in the Anglo-Persian Oil Company. And that it has also assisted in the development of the Papuan oil fields by bearing one-half of the expenses and contributing experts.

It may be of some significance that by general license of September 1, 1919, prohibited transactions under the regulations of the Defense of Realm Act were again permitted except as such transactions might relate to oil-mining property (Cablegram from London, October 18, 1919, Consular reports from London, October 21, 1919, November 8, 1919).

According to recent reports prospecting for petroleum is lawful in the United Kingdom only by the Board of Trade or the Minister of Munitions or persons authorized by them. Similar regulations apply to working a petroleum property. The only drilling now going on in the United Kingdom for petroleum is being done by S. Pearson & Son (Ltd.), as petroleum development managers to the Government.

It is said to be unlawful for a British citizen, without the consent of the Board of Trade, to transfer to an alien or to a foreign-controlled company any interest in a company controlling an oilfield in the United Kingdom (Defense of the Realm Act of 1915 as amended October 23, 1917, Regulation No. 30, BB).

The Netherlands' policy is of practical importance in the Netherlands East Indies. There a discoverer of petroleum is not necessarily entitled to a mining concession, and the mining rights belong only to the Government, or to persons or companies holding contracts for the purpose with the Government. The individuals must be Dutch subjects who are inhabitants of the Netherlands or of the Dutch East Indies, and the companies must be incorporated under Dutch laws either in the Netherlands or the Dutch East Indies and have on their boards of directors a majority of Dutch subjects. The granting of such concessions is apparently subject both to administrative action, by the Governor-General, and to special national laws specifying certain com-

panies The practical monopoly of a subsidiary of the Royal Dutch-Shell group of producing fields, and its indirect advantages to British interests, have been mentioned above. There is also a Nederlandsche Koloniale Petroleum Maatschappij, a subsidiary of the Standard Oil Company, of New Jersey, which has small holdings in the islands, these holdings having been acquired not directly from the Government but from third parties and under a former law which provided that discovery of a mineral under a prospecting license gave the right to a concession. These holdings are said to be of little commercial value, and the company claims to have been refused new prospecting licenses. At one time it was considered that the so-called Djambi fields, in south-central Sumatra, were the only remaining, undeveloped fields of any importance. In 1920 a bill was introduced in the Netherlands Parliament authorizing exploitation of these fields, and a memorandum accompanying the bill indicated that exclusive concession rights were to be granted to the Bataafsche Petroleum Company, the Royal Dutch-Shell subsidiary. The United States Government made representations in the matter, pointing out that American citizens had found it practically impossible to acquire petroleum properties in the Dutch East Indies and that Netherlands subjects had obtained valuable oil properties in the United States, and declaring that ¹⁹

While it is recognized that this agreement provides for the disposition of only one field, it is understood that this field includes the most valuable of the remaining prospective petroleum territories in the Netherlands East Indies, and that American companies thus far have been unsuccessful in requests for a share in the concession. Frankness requires me to state that the disposition of this field at the present time, in the manner stipulated by the pre-

¹⁹ *Note of the U S Department of State to the Netherlands Legation at Washington, November 2, 1920*

posed agreement, impresses this Government as an indication of a policy to exclude companies controlled by American citizens from the petroleum industry of the Netherlands East Indies

The bill, however, was adopted without modification. The question is said to have continued to be the subject of correspondence between the two governments, and it has been unofficially rumored that the Dutch Government would not object to American petroleum participation in the Dutch East Indies if this could be accomplished in such a way as to prevent the opening of that territory to oil companies of certain third countries. However, the exclusion situation, although not nominally discriminatory against the nationals of any particular foreign country, remains substantially unchanged, administratively if not legislatively.

The oil restriction policies of other European governments vary. The policy of *France* for France and French territories, though not definitely expressed in a comprehensive law, apparently excludes all companies not under two-thirds French control.²⁰ Practically the same is true of *Italy*. *Poland* seemingly welcomes foreign capital for petroleum development. In *Greece* the Anglo-Persian Oil Company, Ltd., (British) holds exclusive concessions in certain parts of Macedonia. A decree of November 27, 1918, in *Rumania* expropriating certain oil lands held by native and foreign owners, reselling them to peasants, and reserving subsoil rights to the Government, does not appear to have appreciably eliminated foreign oil interests. At a time when

²⁰ A French law of September 9, 1919, provided for nationalization of all mineral resources, and it apparently became the policy to "regard all applications for concessions in the light of public interest." It is not clear whether this law covered petroleum. It is believed, however, that two-thirds of the directors of a new oil enterprise would have to be French, and that this would apply to Algeria, French West Africa, and Madagascar, and possibly to Morocco and Tunis. The French statement in the San Remo agreement (*vide infra*) bears out this requirement.

the Rumanian "nationalization" laws had been in existence more than two years, these laws providing for the gradual conversion of foreign companies to Rumanian ownership over a period of ten years, it was indicated that foreign concerns, especially of American and Dutch-Shell affiliation, were still conspicuous and were "non-nationalized" ²¹ The Soviet régime in *Russia* nationalized petroleum resources and took control of them regardless of ownership, and without compensation. The effect of the gradual moderation of Soviet economic policy remains to be seen

In Asia there are many cases of non-alien exclusion, although exclusive concessions to nationals of one country may indirectly exclude other foreign nationals in given areas. The Soviet régime some time ago was reported to have granted an oil concession, under restricted conditions, to American interests in Russian *Sakhalin*, this later conflicted with certain Japanese claims in that part of the island. Further Russian concessions to foreign oil interests in Asiatic Russia in the future are not inconceivable. Despite certain nominal national laws ostensibly restricting foreign mining companies, foreign oil concessions have been granted in *China*, notably to American interests but there has been no appreciable development there. *Japan*, under its mining law of 1905 restricts all mining rights to Japanese subjects or companies. The *Persian* situation has been one of much interest. There under the concession system, the Anglo-Persian Oil Company, Ltd (British), holds title to petroleum rights in the southern provinces, where it has an important output. Russian interests in previous decades were active in endeavoring to obtain rights in northern Persia. In 1901 a sixty-year concession covering three and a half of the five northern Provinces was supposed to have been granted to

²¹ U S Department of Commerce, *Commerce Reports*, April 25, 1927

one Koshtaria, and later the Anglo-Persian Company claimed title to this concession by purchase, but the validity of the grant was questioned. American interests have also attempted to obtain Persian concessions. However, the practical situation is one of production in southern Persia by the British company.

In the Western Hemisphere the *Canadian* situation has been noted. There seems to be no alien exclusion in *Costa Rica*, *Bolivia*, *Venezuela*, *Ecuador*, *Colombia*, or *Peru*; although in Peru foreign exploitation is debarred in frontier zones fifty kilometers wide, and a recent Colombian law reserved to the Government ownership of oil on public lands and right to authorize any drilling. *Guatemala* permits leases for the acquisition of oil deposits only for native-born or naturalized citizens, and transfer of such leases only by direct authority of the Government and only to its own nationals. The Government of *Argentina* is reported, some time since, to have barred oilfields from private ownership, and it is itself active in production and refining.

Great interest has attached to the petroleum situation in *Mexico*, where oil production for a number of years was in amount second only to that of the United States, although declining and where oil interests from the United States have predominated in that production, followed by interests of British and other nationality. Before 1917 foreign acquisition and development of oil properties proceeded freely, but the new Constitution of that year declared such rights to belong originally to the government, and provided for their grant to foreign nationals under restricted conditions. Such mineral rights, it was provided, could be freely and fully acquired by Mexican citizens or companies. They could be granted by the nation to foreigners but only if the latter would agree to surrender diplomatic protection in that

respect, and only under limited tenure, and as direct foreign ownership they were completely prohibited in frontier zones. Articles 27 and 33 read in part as follows

Art. 27 The ownership of lands and waters within the limits of the national territory is vested originally in the nation, which has had and has the right to transmit title thereof to private persons, thereby constituting private property

Private property shall not be expropriated except for cause of public utility²² and by means of indemnification.

The nation shall have at all times the right to impose on private property such limitations as the public interest may demand as well as the right to regulate the development of natural resources, which are susceptible of appropriation, in order to conserve them and equitably to distribute the public wealth. In the nation is vested direct ownership of all minerals, petroleum, and all hydrocarbons — solid, liquid, or gaseous

Legal capacity to acquire ownership of lands and waters of the nation shall be governed by the following provisions

I. Only Mexicans by birth or naturalization and Mexican companies have the right to acquire ownership in lands, waters, and then appurtenances, or to obtain concessions to develop mines, waters, or mineral fuels in the Republic of Mexico. The nation may grant the same right to foreigners, provided they agree before the Department of Foreign Affairs to be considered Mexicans in respect to such property and accordingly not to invoke the protection of their Governments in respect to the same, under penalty, in case of breach, of forfeiture to the nation of property so acquired. Within a zone of 100 kilometers (62.14 miles) from the frontiers, and of 50 kilometers (31.07 miles) from the seacoast no foreigner shall under any conditions acquire direct ownership of lands and waters

IV Commercial stock companies may not acquire, hold, or administer rural properties. Companies of this nature which may be organized to develop any manufacturing, mining, petroleum, or other industry, excepting only agricultural industries, may acquire, hold, or administer lands only in an area absolutely neces-

²² "While the term 'public utility' may be somewhat misleading, it is felt that that of 'public use' may be even more so. The same expression ('por causa de utilidad publica') is to be found in the 1857 Constitution, and has always been interpreted by the courts of Mexico in the sense of public interest, as in the case of land expropriated for the surface work of a mine, etc. (H. N. B.)" (Comment in Sen. Doc. translation.)

sary for their establishments or adequate to serve the purposes indicated which the executive of the union or of the state in each case shall determine

Art. 33 Foreigners are those who do not possess the qualifications prescribed by Art. 30 (birth or naturalization) They shall be entitled to the rights granted by Chapter I, Title I, of the present Constitution, but the executive shall have the exclusive right to expel from the Republic forthwith and without judicial process any foreigner whose presence he may deem inexpedient

No foreigner shall meddle in any way whatsoever in the political affairs of the country (The Mexican Review for March 1917) (Printed in U S Senate Document cited above)

Under these articles various decrees were issued affecting previously established American rights, although the new constitution, like the one it superseded, provided against giving retroactive effect to any law to the prejudice of any person Referring to the first of these decrees, relating to taxation, the Government of the United States, while not denying the national competence of Mexico to nationalize property, objected to the retroactive and confiscatory effect of the interpretation and enforcement of the Constitution. The Government stated.²³

While the United States Government is not disposed to request for its citizens exemption from the payment of their ordinary and just share of the burdens of taxation so long as the tax is uniform and not discriminatory in its operation, and can fairly be considered a tax and not a confiscation or unfair imposition, and while the United States Government is not inclined to interpose in behalf of its citizens in case of expropriation of private property for sound reasons of public welfare, and upon just compensation and by legal proceedings before tribunals allowing fair and equal opportunity to be heard and giving due consideration to American rights nevertheless the United States cannot acquiesce in any procedure ostensibly or nominally in the form of taxation or the exercise of eminent domain, but really resulting in confiscation of private rights and arbitrary deprivation of vested rights.

²³ *Note to the Government of Mexico*, April 2, 1918

Since that time the matter has been the subject of various Mexican laws, decrees, and supplemental circulars for the enforcement of Article 27, and of continued correspondence and negotiation between the United States and Mexico, having affected even the question of recognition of certain Mexican governments. For example, the so-called "Warren-Payne Agreement" of 1923 dealt largely with this question and preceded American recognition of the Obregon régime in Mexico. But the difficulty did not end with that agreement and continued to be the subject of dispute between the two countries. Throughout this time the American Government continued to insist that the Constitution of 1917 and the various subsequent laws and decrees must not deprive American nationals of diplomatic protection in the matter of their mineral rights and must not have retroactive or confiscatory effect upon such mineral rights.²⁴

²⁴ The Mexican attitude was ostensibly that nationalization of petroleum, as of other mineral resources, was a desirable policy, and that to effect this it was necessary legally to alter certain foreign rights, but that this would be done with little or no practical injustice to the holders of those rights. A claim sometimes made is that American and other foreign mining interests, particularly petroleum interests, had obtained such a large hold upon Mexican natural resources that their dispossession was necessary in order to reestablish that country's economic independence and to enable it to establish economic democracy within its borders, but the reply is made that even if this assumption were granted it cannot justify the use of illegal means to attain the end. It is also sometimes charged by hostile critics that the dispute has been given greater attention than it otherwise would have received because of special influence enjoyed by large oil companies with the American Government. The answer to this obviously has been that petroleum interests were naturally most active in appealing for government support because they were the interests most largely and directly affected by an illegal procedure. A charge of the other extreme has been that the recent Mexican régime is under Soviet influence.

Aside from the more extreme charges, the problem as it has developed in the decade subsequent to 1917 may be briefly summarized as follows. After the adoption of the Constitution of that year the American Government made various protests, such as that of April 2, 1918. The tenor of the replies was that the Constitution in itself had no practical effect upon American petroleum rights and that protest should be reserved for such

a time as laws applying it should have such effect, and the same argument was extended to a distinction between laws and decrees enforcing them and between decrees and actual presidential interpretation and application of them. In the course of time, however, laws were passed, such as the Alien Land Law ("Organic Law of Fraction 1 of Article 27 of the Constitution") and the Petroleum Law, and decrees and circulars were issued, which clearly showed the intention of the Mexican Government. Following an interval of non-recognition the Payne-Warren Agreement was signed on August 2, 1923, by which the Mexican Commissioners party to the Conference at which it was drafted, gave such assurances as led the United States Government to recognize the Obregon régime as the Government of Mexico. Later, however, steps were taken by the Mexican Government (under President Calles) which seemed to the American Government to repudiate these assurances.

Following is an unofficial synopsis of a verbal statement of the Mexican position at the end of 1926, as made by Señor Antonio Castro Leal, Secretary of the Mexican Embassy at Washington, in an address delivered at a "Conference on American Concessions Abroad," Washington, December 11, 1926.

- I The doctrine that subsoil rights belong to the State is not new or unique, having been found in various countries in various periods of history.
- II The former laws of Mexico, such as those of 1884, 1892, and 1909, embodied this doctrine with respect to minerals, but the Diaz régime made an exception of petroleum.
- III The policy of the Mexican Government, under the Constitution of 1917 was as follows, to be effective January 1, 1927 —
 - 1 Property is considered to be held as petroleum property if, and only if, intention is shown, for example if it was stated in the purchase contract that the property was bought for the development of underlying petroleum or if the price paid by present owners was such as to indicate that the land had been purchased on account of its petroleum bearing value. There must be a "positive act" as a basis for confirmation of title by the Mexican Government.
 - 2 Foreign owners of petroleum property in fee simple must apply for confirmation of title and for conversion of such title to title by concession only, the concession to run for fifty years and to be renewable at the discretion of the Mexican Government for another fifty years. While title in fee and title by concession are admittedly different, petroleum production is so rapid, that a 100-year period is ample time for obtaining all oil beneath a given acreage.
 - 3 Agricultural land owning corporations must be 50% Mexican.
 - 4 Surface land ownership rights, as contrasted with subsoil rights, are to remain as heretofore, except that in the frontier zones

foreign ownership is forbidden, present foreign owners, if natural persons, in such zones to be permitted to retain such land in such zones until death, and their heirs to retain it five years thereafter or for a longer period if the Mexican Government should permit it in a given case in order to prevent forced and unprofitable sale. Corporations are given ten years to dispose of holdings.

Diplomatic protection rights of foreigners remain as always except in matters of ownership of or concessions to real property (mineral or otherwise), and will be recognized even in such matters if in a given case it can be shown that the foreign national has submitted his difficulty to the courts of the land and has been denied justice or has suffered such judicial delay as to amount to denial of justice by such ordinary judicial processes.

The official position of the two governments was summarized and crystallized in an exchange of notes in 1926. The last four of these notes consisted of one of July 31, 1926, from the Secretary of State of the Mexican Minister of Foreign Affairs, one of October 7, 1926, in reply, another American note to Mexico of October 30, 1926, and another Mexican reply of November 17, 1926, they were made public November 24, 1926 (Press releases by U S Department of State). The respective attitudes embodied in these notes may be briefly summarized as follows:

The Mexican notes express these views: (1) Conceptions of the doctrine of "positive acts" and of the distinction between vested rights and conditional rights, and between permanent rights in fee, and limited rights, differ from the American conception. The vested right of a natural person is only for life, and the Mexican Government is granting such right, in its nationalization procedure, while the vested right of an artificial person (corporation) might never end, and it is therefore necessary in effecting nationalization to set a time limit for the disposal of corporate rights. (2) The requirement of confirmation of rights is not retroactive, since it applies to an act not in the past, but in the future. (3) The Payne-Warren agreement (a) was signed by the Mexican Commissioners with reservations concerning positive acts to confirm titles and did not prevent the steps now being taken by the Mexican Government, (b) was not ratified by the Senate of either country and therefore did not have the force of a treaty, and (c) was not understood by Mexico as a condition of American recognition. (4) The American Government should not object to laws and decrees as such, and should not protest except by presenting concrete cases of injustice to American nationals.

The American notes (1) firmly reasserted the legal principles of vested rights, of permanent and unconditional ownership in fee, of "positive acts," as applying to appropriation of subsoil rights by surface owners, and of the retroactive confiscatory effects of the Constitution of 1917 and of subsequent laws and decrees. (2) They cited the minutes of the Warren-Payne Conference of August 2, 1923, as follows:

Finally, in 1928, this problem of American petroleum rights in Mexico appeared to be settled. A decision of the Mexican Supreme Court, late in 1927, had constituted a step in this direction. A further step was the amendment, by the Mexican legislature, of the Petroleum Law. (*Vide* press release by the U. S. Department of State, January 12, 1928: *Translation of Law Amending Articles 14 and 15 of the Mexican Petroleum Law, Published in Diario Oficial January 10, 1928, the President of Mexico Signed the Amending Act on January 3, 1928*) Presumably following further discussions of the exact application of the new law, and

"The American Commissioners have stated in behalf of their Government that the Government of the United States now reserves, and reserves should diplomatic relations between the two countries be resumed, all the rights of the citizens of the United States in respect to the subsoil under the surface of lands in Mexico owned by citizens of the United States, or in which they have an interest in whatever form owned or held, under the laws and Constitution of Mexico in force prior to the promulgation of the new Constitution May 1, 1917, and under the principles of international law and equity"

(3) They refer further to the Conference of 1923 and state—

"Without the assurances received in the course of that negotiation recognition could not, and would not have been extended and my Government confidently relies upon the fulfillment of the assurances then given"

(4) They summarize the dispute as follows

"The correspondence discloses little, if any, variation or difference of opinion with respect to the statement of certain principles which we have agreed lie at the basis of our consideration of these matters. Let me enumerate these fundamental ideas or principles

"First Lawfully vested rights of property of every description are to be respected and preserved in conformity with the recognized principles of international law and of equity

"Second The general understanding reached by the commissioners of the two countries in 1923, and approved by both governments at the time of resumption of diplomatic relations between them, stands unmodified and its binding force is recognized

"Third The principle of international law that it is both the right and the duty of a government to protect its citizens against any invasion of their rights of person or property by a foreign government, and that this right may not be contracted away by the individual is conceded

"Fourth The principle that vested rights may not be impaired by legislation retroactive in character or confiscatory in effect is not disputed"

issuance of executive decrees for its enforcement, the State Department, in a press release of March 27, 1928, made the following announcement:

"The petroleum regulations just promulgated by President Calles constitute executive action which completes the process beginning with the decision made by the judicial branch of the Mexican Government on November 17, 1927, and followed by the enactment of the new Petroleum Law by the legislative branch on December 26 last

"Together these steps voluntarily taken by the Mexican Government would appear to bring to a practical conclusion the discussions which began ten years ago with reference to the effect of the Mexican Constitution and laws upon foreign oil companies

"The Department feels, as does Ambassador Morrow, that such questions, if any, as may hereafter arise, can be settled through the due operation of the Mexican administrative departments and the Mexican courts "

These and other, unofficial, reports indicated that the main outlines of the settlement, by judicial, legislative, and executive action, and by informal diplomatic understanding, were as follows (1) Titles legal before 1917 were confirmed (2) Where these titles were permanent, surface ones, that is, constituted outright ownership, this confirmation is valid in perpetuity Where rights involved a time limit, as in leases of petroleum rights, the confirmation is made accordingly. In other words, the alleged Mexican attempt to convert fee simple, "vested" rights to 50-year concessions was withdrawn (3) Agreement was reached concerning "positive acts" The Mexican position had been that, according to ancient Spanish legal theory and basic Mexican jurisprudence, sub-soil rights are vested in the state and are only held by individuals and corporations as a result of an express or implied grant by the state The Mexican Government, therefore, had held that private ownership of land did not

carry with it petroleum rights unless there had been "positive acts." for example, unless the owners had actually begun petroleum operations or had acquired the land with specific intent to engage in such operations. In the present "understanding," it was reported, the American Government conceded the basic concept of original ownership of sub-soil rights by the Mexican State, but the Mexican Government, on its part, defined the term "positive acts" more liberally and in accordance with the "Payne-Warren Agreement" of 1923. This 1928 settlement, however, is reported to be unsatisfactory to American oil groups.

It would be inaccurate to regard this difficulty between the United States and Mexico as simply a conflict over respective shares of a highly important mineral resource, in one sense it has been a dispute over established rights and has had to do with law and equity. But it would be equally aside from the facts to fail to recognize that it arose over a matter of economic rights,—rights to an important industrial resource. These are typical of the various rights which legal doctrines and concepts of international equity are designed to protect, and it is of no small significance that international relations, when they are ones of conflict as when they are ones of concord, in actual practice so frequently and so largely, and in occasional instances so spectacularly, revolve about economic interests of this sort.

There is finally, the restriction situation in the *United States*. The only American restrictions on foreign ownership and operation of petroleum and other mineral properties in the United States are those pertaining to minerals contained in public lands. Prior to 1920 only American citizens, or those who had declared their intention of becoming American citizens, could apply for patents to such lands; but after the application was made there was no re-

striction on the transfer of mineral rights thus secured, and companies incorporated in the United States, regardless of ownership, could make application for such patent. Moreover, acquisition and transfer of other mineral properties, that is, other than in public lands, were and are entirely open to aliens. After the World War, however, there was some agitation over this, particularly in view of reports of exclusion of American citizens from mineral exploitation in various foreign countries. Consequently Congress passed a Federal Leasing Law in 1920, known as "an act to promote the mining of coal, phosphate, oil, oil shale, gas, and sodium,"²⁵ which contained in the first section a reciprocity provision. This clause read "That citizens of another country, the laws, customs, or regulations of which, deny similar or like privileges to citizens or corporations of this country, shall not by stock ownership, stock holding, or stock control, own any interest in any lease acquired under the provisions of this Act." But, as mentioned above, this applies only to public lands of the Federal Government.

At this time and subsequently the American Congress became interested in determining the exact status of American nationals in petroleum exploitation abroad, and of existing cases of foreign petroleum exploitation within the United States. This interest resulted, not in legislation or in any major change in American policy at home or abroad, but in the publication of interesting compilations of facts.

Early in 1920 the Senate adopted a resolution requesting the President to inform the Senate

First, as to what restrictions, if any, are imposed either directly, or indirectly, by France, Great Britain, Holland, Japan, or any other foreign country, or the dependencies thereof, upon the citizens of the United States in the matter of prospecting for

²⁵ Public, No. 146, 66th Congress, Approved February 25, 1920

petroleum, or in the acquisition and development of lands containing the same within the territory subject to the jurisdiction and influence of such countries

Second, if such restrictions exist, what steps have been taken by the Government of the United States to secure their removal and equality of treatment in respect of citizens of the United States

Third, if any restrictions are imposed by the Government of Mexico upon citizens of the United States in regard to the acquisition or development of petroleum-bearing lands within its jurisdiction which are not imposed upon nationals of other foreign countries

Fourth if any such discrimination restrictions are imposed by the Government of Mexico upon citizens of the United States, what steps have been taken by the Government to secure removal of such restrictions and the equality of treatment in respect to citizens of the United States

The President responded, a few months later, with a message transmitting a report by the Secretary of State, surveying the situation as requested ²⁶

In 1922 the Senate called upon the Federal Trade Commission, not only for further information concerning possible discriminations against American citizens in petroleum exploitation abroad, but also for facts concerning existing cases of operations of foreign oil interests in the United States. The resolution read. ²⁷

Resolved, That the Federal Trade Commission investigate and report to the Senate respecting the ownership by persons who are not citizens of the United States of the shares of the Union Oil Company, a corporation of Delaware, the Union Oil Company, a corporation of California, and the Shell Oil Company, a corporation of California, the interrelations between said corporations; the interest of said corporations in other corporations in the United States, whether or not Great Britain, the British Dominions, Holland, Rumania, or other countries having oil lands within

²⁶ U S Senate, 66th Congress, 2d session, Senate Document, No 272 (of 1919)

²⁷ U S Senate, 67th Congress, 2d session, Senate Resolution, No 311, adopted June 29, 1922

their territories discriminate against American citizens with respect to the ownership of oil lands, or with respect to the ownership of shares in corporations which are organized to exploit and develop oil lands or engage in the production of petroleum, the acreage of oil lands in the United States which is held, by lease or otherwise, by said Union Oil Company, a corporation of Delaware, the Union Oil Company, a corporation of California, and the Shell Oil Company, a corporation of California, and their subsidiary and affiliated companies, the acreage of oil lands which has been acquired by said corporations, or any of them, within the last year, and what measures are being pursued by said corporations to further extend their holdings of oil lands within the United States

The resulting report of the Federal Trade Commission in the following year disclosed activities of British-Dutch interests in the American oil business to an extent which had not been generally known ²⁸

At the same time it was officially indicated that the United States Government was enforcing the reciprocal exclusion provisions of the Leasing Law of 1920, it being understood that the Royal Dutch-Shell interests, as represented by the Shell Company of California and the Roxana Petroleum Corporation, had made several applications for leases under that law, and that these were not granted but remained under consideration by the Interior Department, which ruled that the Department —

must be satisfied of the qualification and right of the applicant Shell Company before any permit or lease to it is granted. It is incumbent upon the applicant company to prove its qualifications ²⁹

Finally, it should be noted that there have been proposals to add to the limited effectiveness of the Leasing Law of 1920, and to establish reciprocity in the development of American

²⁸ These activities have been briefly described in the foregoing paragraphs of this chapter

²⁹ U S Federal Trade Commission, *op cit*, pp 37-38.

petroleum properties, not simply in respect to the public lands, but for the entire field

Typical of these proposals was the so-called "Curtis Bill,"³⁰ introduced in Congress as early as October 30, 1919, but not passed. This plan would have provided that no citizen or subject of a country which prevents or prohibits American citizens, because of their nationality, from being shareholders or operators in any undertaking for the development of mines and minerals, including petroleum, "or which limits the number of shares which may be held by American citizens in such undertakings," or "places restrictions on American citizens holding any position in the company or on the board of directors or similar control body," should be permitted to acquire or develop similar properties in the United States or its dependencies. The bill would have equally debarred any alien company which prohibits or restricts participation of American citizens, and an enacting clause would have directed the sale of any foreign holdings in the United States coming within the prohibition laid down.

The petroleum restriction situation throughout the world may be recapitulated as follows (1) The policy of exclusion is practiced in many, although not in all, countries and colonies outside of the United States (2) This exclusion is discriminatory in the sense of not being on the basis of national treatment or of reciprocal treatment, and may be termed a "closed-door" policy (3) From the legislative viewpoint in few if any cases is it discriminatory in the strict sense, or the sense in which that term is most frequently used in international relations, that is, the governments in few if any cases legislatively discriminate between foreign nationals of second and third countries (4) The exclusion policy is particularly found among nations having important

³⁰ U. S. Senate, 66th Congress, 1st session, S. 3334

petroleum resources, especially in their territorial possessions and dependencies. (5) In addition to legislative exclusion there are also cases of restriction of a contractual type, as in agreements between governments and nationals for exclusive working of given areas, and of restriction of an administrative type, as in the granting of concessions within the discretion of executive officials. (6) These contractual and administrative actions not only are often just as effective as legislative ones, but also offer opportunity for the practice of a policy of discrimination in the complete sense of that term. (7) The United States, the country in which much the largest present petroleum output occurs, has no petroleum exclusion policy, except that since 1920 it has debarred from leases in cases of public lands companies of countries excluding American nationals from petroleum development. (8) The United States, in matters of petroleum development as in other similar matters, has argued for an Open-Door policy throughout the world. (9) Because of the strategic importance of the product, the problem of petroleum exclusion, particularly where exclusion has been confiscatory or non-reciprocal or in any sense discriminatory, has had a pivotal place, in recent years, in the relations of several nations.

MESOPOTAMIA, SAN REMO, AND LAUSANNE

While the matters discussed above, that is, the activities of governments in favoring or participating with their own oil companies and in restricting their territories with regard to oil exploitation by alien nationals, account in general for the formal petroleum policies of the various governments, certain post-war developments in the Near East have disclosed a peculiar orientation of petroleum policy on the part of certain leading powers. These developments have been

partly matters of restriction of the type described above, but they have been a good deal more than that, and probably do more than any other events to justify the term "oil diplomacy." The petroleum problems of Mesopotamia, San Remo, and Lausanne are partly incidents of one development, but they may best be treated somewhat separately.

Mesopotamia, formerly Turkish, was made a British mandate following the World War³¹ Although it has not been developed to the point of any appreciable oil production, it is, on the basis of scientific estimates and industrial prospecting, generally believed to contain some of the richest undeveloped oil resources in the world³² Since the terms of the mandate do not give exclusive British economic privileges there, the subsequent British attempts to establish petroleum rights (in what is now the "Kingdom of Irak") centered largely about the so-called Turkish Petroleum Company.

The history of that company, which has played such a prominent part in the modern relations of Great Britain, Germany, France, and the United States, is not lacking in a certain atmosphere of Arabian Nights, and is briefly as

³¹ As indicated in a previous chapter.

³² In indicating the present importance of the Near East as a region the petroleum resources of which are of interest to many nations, at the risk of seeming to draw upon a source not well authenticated, it may be remarked that "there is nothing new under the sun," as suggested in the following statement from "The Travels of Marco Polo, the Venetian" (revised from Marsden's translation and edited with introduction by Maurice Komroff, Boni and Liveright, N. Y., 1926, Book I, Chapter 3, p. 26) — "Bordering upon Armenia, to the southwest, are the districts of Mosul and Maredin, which shall be described hereafter, and many others too numerous to particularize. To the north lies Georgiana, near the confines of which there is a fountain of oil which discharges so great a quantity as to furnish loadings for many camels. The use made of it is not for the purpose of food, but as an unguent for the cure of cutaneous distempers in men and cattle, as well as other complaints, and it is also good for burning. In the neighboring country no other is used in their lamps, and people come from distant parts to procure it."

follows. Some years before the World War, in connection with the Anatolian and Bagdad Railway concessions, the Deutsche Bank (of Germany) obtained from the Turkish Government a concession to work the petroleum deposits of the vilayets of Mosul and Bagdad. But a British subject named D'Arcy had received promises of the oil fields of these two vilayets from two Grand Viziers. Consequently in 1912 British interests acquired from the Deutsche Bank the rights it claimed there, and established the Turkish Petroleum Company on those bases, giving the Germans 20,000 shares in the new company. The British and German Ambassadors proposed to the Turkish Government that it grant a new petroleum concession covering Mesopotamia, and in June 1914 the Grand Vizier informed them that the proposed concession would be granted, but there is apparently not only no evidence that such a concession materialized but evidence that the Anglo-Persian Oil Company, representing the D'Arcy interests, was informed in 1915 that the agreement was no longer valid.³³ Reports concerning the recent status of the company have varied. According to one report published in 1923, "the title to all petroleum rights in Mesopotamia was claimed by the Turkish Petroleum Company (Ltd), a British corporation, the stock of which is owned as follows: Anglo-Persian Oil Company (Ltd), 50%, Royal Dutch-Shell interests, 25%, and the French Government, 25%."³⁴ According to another account,³⁵ citing a report of the company of 1923, "It would seem that the British Government now has complete control of that company. The Anglo-Persian Oil Company has 76,000 of the shares, and the British Government's nominee,

³³ *The Annals*, *op cit*, p. 166

³⁴ U. S. Federal Trade Commission, *op cit*, p. 50.

³⁵ *The Annals*, *idem*

in whose name stands the block of former German shares, controls 40,000, making together 116,000 of the 160,000 shares. But, in turn, the British Government apparently holds the controlling interest in the Anglo-Persian Company. In the Parliamentary Debates, in March, 1920, there appears a statement by Sir Hamar Greenwood in answer to a question: 'The Government has a predominating interest in the Anglo-Persian Company, holding two-thirds of the ordinary shares, besides debentures'." It has also been stated that the Anglo-Persian Oil Company and its subsidiaries own all of the issued share capital of the Turkish Petroleum Company, Ltd.

While the Turkish Petroleum Company asserted title to all petroleum rights in Mesopotamia, this claim has not been validated, as will be seen more fully below.

The "*San Remo Agreement*" was a remarkable understanding, bearing upon oil rights in Mesopotamia and elsewhere, entered into by the British and the French in 1920. It was concluded by Professor Sir John Cadman for the British Government and M. Philippe Berthelot for the French Government at San Remo on April 24, 1920, subject to ratification by the Prime Ministers of their respective countries. It referred to Rumania, Asia Minor, territories of the former Russian Empire, Galicia, the French Colonies, and the colonies of the British Crown, but provided also that "this agreement may be extended to other countries by mutual consent." In a word, it provided for a British-French division of equal shares in petroleum development in Rumania, for joint support of their respective nationals in such developments in territories of the former Russian Empire, for 75% British and 25% French shares in petroleum output in Mesopotamia if those fields should be developed by the British Government, or similar shares in

petroleum development there if the British Government should have "recourse to a private company to exploit the Mesopotamia oil fields," and for reciprocal privileges in the respective colonies

This agreement, "based on the principle of cordial collaboration and reciprocity in the countries where the petroleum interests of the two nations can be amalgamated to advantage," is of such unique interest in international petroleum relations, and incidentally, savors so considerably of the sphere of interest system for division of economic rights in "backward countries" that it is worth citing in full.

SAN REMO AGREEMENT

ANGLO-FRENCH PETROLEUM AGREEMENT, SIGNED AT SAN REMO,
APRIL 24, 1920

1 By order of the two Governments, France and Great Britain, the undersigned representatives have resumed, by mutual consent, the examination of an agreement in reference to petroleum.

2 This agreement is based on the principle of a cordial collaboration and reciprocity in the countries where the petroleum interests of the two nations can be amalgamated to advantage. The present memorandum refers to States or countries as follows: Rumania, Asia Minor, Territories of the former Russian Empire, Galicia, the French colonies, and the colonies of the British Crown.

3 This agreement may be extended to other countries by mutual consent.

4 *Rumania* — The Governments of Great Britain and France will lend their aid to their respective dependents in all negotiations which are to be started with the Rumanian Government for —

(a) The purchase of oil and petroleum concessions, shares, or other interests owned by former subjects or companies (of enemy origin) in Rumania, which have been sequestered — for instance, the Steaua Romana, Concordia, Vega, etc. — who constituted in said country the petroleum group of the Deutscher Bank and the Discont Gesellschaft, at the same time as all other interests which it may be possible to take over.

(b) The concessions of petroleum fields owned by the Rumanian State

5 All shares belonging to former enemy concessions of which one may gain possession and all other advantages drawn from these negotiations will be divided on the basis of 50 per cent to British interests and 50 per cent to French interests. It is understood in the company or companies to be created in order to carry out the administration and exploitation of said shares, concessions, and other advantages, the two countries are to have the same proportion of 50 per cent of the capital subscribed as well as equal representation on the board and equal voting power.

6 *Territories of the Former Russian Empire* — In all the territories belonging to the former Russian Empire the two Governments will give their joint support to their respective dependents in their common efforts with the view to obtain petroleum concessions and facilities for export, and to assure the delivery of petroleum supplies.

7 *Mesopotamia* — The British Government binds itself to concede to the French Government, or the representative appointed by same, 25 per cent of the net production of crude oil at the current market price which His British Majesty's Government may draw from the Mesopotamia petroleum regions in the event of the regions being made productive by virtue of Government exploitation, or in the event the Government has recourse to a private company to exploit the Mesopotamia petroleum regions, the British Government will place at the disposal of the French Government a participation of 25 per cent in the said company. The amount to be paid for a participation of this kind should not exceed the amount paid by any other participant in the said petroleum company. It is also agreed that the said petroleum company is to be under the permanent control of Great Britain.

8 It is mutually agreed in the event of the private petroleum company being constituted as aforesaid the Government of the country or other local interests are authorized, if they so desire, to participate up to 20 per cent in the shares capital of said company. The French are to contribute one-half of the first 10 per cent of such a local participation and the balance will be furnished by each participant in proportion to his holdings.

9 The British Government agrees to lend their support to any arrangements by which the French Government may obtain from the Anglo-Persian oil supplies which may be transported by canalization from Persia to the Mediterranean by means of any pipe line which may have been constructed in the interior of those

territories placed under French mandate, and regarding which France has accorded special facilities, up to 25 per cent of the oil so transported on such terms and conditions which may be fixed by common accord between the French Government and the Anglo-Persian company

10 In consideration of the foregoing agreement, the French Government will acquiesce, if such desire is expressed, and as soon as the request is made, to the construction of two pipe lines and separate railways, these latter necessitated for the construction and upkeep of the pipe line and for the transportation of the oil emanating from Mesopotamia and Persia, and traversing French spheres of influence up to a port or ports on the eastern Mediterranean. The said port or the said ports are to be chosen by mutual agreements by the two Governments

11. In the event of pipe lines or railways of this nature traversing a territory in the interior of a zone under French influence, France agrees to accord all facilities for the right of way (way leaves) without taxes or transportation claims being imposed for the passage of such oil. An indemnity, however, will be due the landowners for the area so occupied

12 France will also accord facilities in the terminal ports for the acquisition of property necessary for the erection of depots, railway tracks (switches), refineries, loading quays, etc. Oil exported through these installations is to be exempt from export and transit taxes. The necessary material for the construction of the pipe lines, railways, refineries, and other installations is also to be free from all import and transportation taxes and claims (titres de transport)

13 Should the said petroleum company wish to establish a pipe line and a railway in the direction of the Persian Gulf, the British Government will use its good offices in order to facilitate similar facilities

14 *Northern Africa and other colonies* — The French Government will accord facilities to any British group or groups of good standing which can offer the necessary guaranty, which will operate in conformity with French legislation, for the acquisition of petroleum concessions in the colonies of France or in French protectorates or zones of influence, including Algeria, Tunis, and Morocco. It is well to point out that the French Parliament has decided that groups formed under these conditions are obliged to contain at least 67 per cent French interests

15 The French Government will facilitate the granting of all concessions in Algeria which are now liable to examination as soon

as the applicants have complied with all the requirements of French legislation.

16 *Colonies of the British Crown* — As far as the existing regulations will permit, the British Government will accord to the French dependents who may desire to explore and exploit petroleum regions in the Crown colonies advantages corresponding to those France has accorded to British subjects in the French colonies.

17 In the foregoing agreement the terms are not applicable to the concessions which may be the object of negotiations already instituted between private French or British interests.

18 The present agreement has been initialed this day by M Philippe Berthelot and Prof Sir John Cadman, subject to ratification by the prime ministers of France and Great Britain, respectively San Remo, April 24, 1920 — Reproduced from U S Federal Trade Commission, *op cit*, pp 103-105

The American Government protested against the exclusive nature of this agreement and said.³⁶

In this connection I might observe that such information as this Government has received indicates that prior to the war the Turkish Petroleum Company, to make specific reference, possessed in Mesopotamia no rights to petroleum concessions or to the exploitation of oil, and in view of your assurance that it is not the intention of the mandatory power to establish on its own behalf any kind of monopoly, I am at some loss to understand how to construe the provision of the San Remo agreement that any private petroleum company which may develop the Mesopotamia oil fields shall be under permanent British control.

The British Government, giving assurance of no discrimination against non-British interests but reasserting special British rights in Mesopotamia, stated:³⁷

The whole question of Mesopotamia, which has been fully dealt with in correspondence with the United States Government,

³⁶ Note from Hon Bairbridge Colby, Secretary of State for the United States, to Earl Curzon, British Secretary of State for Foreign Affairs, November 20, 1920.

³⁷ Statement of British Foreign Office, April 1921.

need not be referred to here beyond saying that while there is no intention of discriminating against non-British interests, account must be taken of legitimate rights acquired before the war, and this applies equally to Palestine, where American claims are understood to exist

At *Lausanne* occurred the third important episode in this interesting chapter of modern oil diplomacy³⁸ When the Allied representatives met there in 1922 to conclude a permanent peace with Turkey it was obvious that the oil resources of the region under consideration would have an important bearing upon the negotiations True, Mesopotamia, Palestine, and Syria had already been mandated, but the powers were interested in oil rights in remaining Turkish territory, and possibly also in validation of specific claims even in mandated areas such as the claim of the Turkish Petroleum Company It was unofficially reported that the Turkish representatives were able to obtain more favorable peace terms than they otherwise would have by holding out such oil rights in the bargaining process, and particularly by playing against British interests the interests of France—a power relatively unsuccessful thus far in obtaining control of a large share of the world's oil resources³⁹ Turkey, under the guidance of its new nationalism, refused to accept a proposed clause in the treaty which would have confirmed and validated all contested concessions

That the British Government, however, did not technically waive such claims is indicated by a press statement of its representative that "my Government considers all obligations contracted in 1914 as retaining their full force and as binding the Turkish Government in all territory which

³⁸ *The Annals*, *op cit*, p. 167

³⁹ One of the humors of the press at the time was the statement that during the Conference the hotels at Lausanne had more guests who were representatives of leading oil companies of the world than official representatives of the governments party to the conference

may remain Turkish after the Treaty of Peace. My Government declares their firm intention to hold the Turkish Government responsible for any failure in the obligations then contracted."

The American representative, present as an "unofficial observer," made a declaration of the American position. The alleged concession of the Turkish Petroleum Company had never been validated, the United States was not technically a participant in the Allied victory over Turkey, but as a participant in the common cause of the war it expected, in the conclusion of the Turkish peace, that its "interests and rights should not be disregarded", and the United States stood as always against any secret or discriminatory economic arrangements and in favor of the Open Door and equality of opportunity.⁴⁰

A subsequent development might be spoken of as the fourth episode in the affair of the powers with respect to

⁴⁰ That American interests in Near Eastern oil have not been merely theoretical ones is indicated by various American concessions there. For example in April 1923 it was reported that a renewal of the so-called "Chester Concession" of 1908 had been ratified by the Turkish Government. This project, in which Admiral Chester, General Goethals, and other prominent Americans were said to be interested, was reported to embrace vast grants of economic development rights, including the construction of several thousands of miles of railways and the building of towns and ports, including also petroleum exploitation, and applying principally to Anatolia but also to other parts of former Turkish territory—possibly including Mesopotamia. (*Vide* The Washington Star, April 10, 11, and 12, 1923.) It is clear, however, that, contrary to certain popular impressions, the American Government does not intend to be in any sense a participant in any such project, and is prepared to support such American concessionaires only to the extent that they have regularly acquired legal title to economic equities abroad and to the extent that diplomatic protection of such rights becomes necessary. American oil groups have also been reported to be interested in Palestine. It has even been reported at times that a private Anglo-American oil agreement regarding the Mesopotamian oil fields was being negotiated whereby American oil companies would share those fields with the British companies. (*Vide* U. S. Federal Trade Commission *op cit*, pp. 16-17.)

Mesopotamian oil, if it might be officially substantiated. It has been reported recently that leading American petroleum interests have become party to some agreement with principal oil concerns of other nationality, if not also jointly with certain foreign governments, for the sharing of these resources. In short it is claimed that a new pact of the San Remo type has been arranged, with inclusion of American enterprise. Such a development is not a matter of official public record. But the report is not without plausibility, and if correct would further indicate the tendency toward either direct international integration of enterprise or, short of that, the adoption by such enterprise of international "private treaties" to end economic conflict and mutually to accomplish economic results.

The problem of the powers and petroleum in the Near East is not yet ended, and indeed, in view of the apparently rich and undeveloped character of oil deposits there — particularly those of Mesopotamia — it may only have begun. But with the seeming failure of the British and French to put the San Remo agreement into effect, and of those powers fully to obtain their desired validation of contested claims at Lausanne, and with the stand taken by the United States, there is some indication that the Open Door may prevail with respect to petroleum in Mesopotamia and other regions now or formerly a part of Turkey. In any event it appears that American interests are likely to take their place with British and French interests in oil developments in Asia Minor. The international petroleum problem of the Near East has been presented here not so much as a problem in itself, but rather as an illustration of the extent to which matters of this kind may affect the political relations of nations, or, equally, may lead to non-political arrangements.

It is thus that the importance of an industrial raw

material may in certain instances lead, not only to private and public foreign and international exploitation, and to formulation of national policies of vital concern to other nations, but as well to diplomatic procedure of the greatest interest in international relations. But that difficulties arise in cases of this sort should not obscure the more basic, if less spectacular, fact of the growing international rather than purely national character of the whole industrial process. Indeed, the very fact that international difficulties do arise, as well as the fact that the enterprise of one country often becomes linked with that of another, emphasizes the international nature not alone of commerce but also of underlying industry.

CHAPTER XIV

PRIVATE FOREIGN AND INTERNATIONAL EXPLOITATION OF RAW MATERIALS

EXTENSION OF OWNERSHIP OF RESOURCES

THE many instances of private foreign and international exploitation ("control"¹) of raw materials by means of the mere extension of capital or capital and management from one country to another constitute a system which is of prime importance in the world's industrial order. This system may be looked upon partly as

¹ The term control, in discussions of the raw material problem, may and does have different connotations. It is loosely used by most writers on the subject. It may imply the possession of all or the major portion of the production of a given material or it may connote manipulation. A distinction may be drawn between political control and economic (so-called "commercial") control, but here again there is confusion of terms. Political control may mean merely the monopolistic or substantially monopolistic possession of the production of a raw material or it may mean governmental manipulation in such a case. On the other hand economic control may be restricted to cases of monopoly or not. In the preceding chapter on "public international control of raw materials" the cases discussed were those of *monopolies* or substantial monopolies *politically manipulated*. In the present chapter reference is primarily to cases where the industrial interests of one or more countries acquire possession of production of an important raw material in another country, without necessarily acquiring a world monopoly, and therefore also without necessarily practicing any manipulation of the supply, although some stress will be placed upon cases of such monopolistic manipulation. As a matter of fact, it is often difficult to distinguish between foreign and international raw material exploitation which is not at all monopolistic and such exploitation which approaches world monopoly. Again, monopoly of a raw material may exist simply by

one of exploitation of certain countries² by other countries, but it is better viewed as largely a natural evolution of world business along lines neither dictated by governments nor fixed by political boundaries and in many cases as an evidence of international economic community of interest

AGRICULTURAL AND FOREST PRODUCTS

Foreign ownership is less frequent in the field of agricultural and forest products³ than in that of minerals. This is true because the localization of such production generally has not been so sharp, nor so much subjected to large-scale industrial organization, nor so much endangered (with the possible exception of forestry) by rapid exhaustion of known supplies, the dynamic industries have passed through slow

reason of its exclusive production in one country, or by reason of foreign exploitation, or by reason of international combination of private interests. It is also difficult, in actual fact, to distinguish between public controls and private controls. The former, are, of course, based on the latter, but when *monopolistic* and *manipulative* control is established it is in some cases purely private, and in other cases, as observed in the preceding chapter, public, and in turn the private cases may become public or quasi-public at any time as a result of governmental action through regulation of a syndicate, imposition of a special form of export duty, etc. Finally, private capital control is often referred to as "commercial" control, although it would be more accurately termed industrial control where it is, as true in the majority of the cases mentioned, control of production, commercial control would be more properly confined to the cases of market control where production control is minor or is absent. (But even here terminology is not crystallized, as "commerce" is sometimes used to denote trade alone, and sometimes to embrace both industry and trade)

² In the enumeration of cases of exploitation by private interests in this chapter, "American interests," or "American capital," or "American concerns," unless otherwise indicated, mean those of the United States, a convenient and generally accepted usage.

³ For basic facts concerning most of the agricultural industries of the world, *vide* U. S. Department of Agriculture, *Geography of the World's Agriculture*, for current statistics of production and trade, same department, *Agriculture Yearbook*, and U. S. Department of Commerce, *Commerce Yearbook*, concerning forest products, Zon, R., and Sparhawk, W. N., *op cit*.

and local developments, while the static supplies of nature such as the minerals have experienced rapid and universal exploitation. Nevertheless, the world is not without foreign-owned plantations, as of coffee, tea, and sugar, nor foreign-owned timber concessions, as in South America and Russia, nor similar controls or attempted controls in such cases as cotton, quebracho, cinchona, and rubber. Several of these may be noted

COTTON

British attempts, primarily economic but also quasi-governmental, to promote cotton cultivation throughout the Empire are sometimes referred to in the category of raw material controls, but they are not international in the strict sense of the term as here used, and have not yet proved appreciably effective in lessening the large dependence of the United Kingdom upon imports of raw cotton from the United States. However, the British ægis in Egypt and the Anglo-Egyptian Sudan, and its relation to the important Egyptian production of long-staple cotton, is of considerable significance, particularly to industries of the United States which consume a large portion of the annual crop.

COFFEE

German ownership of coffee plantations in Brazil and in Central America is a mild case of foreign exploitation in agriculture, since it mostly involves settlement and apparently little if any "control by the fatherland." It is stated that prior to the outbreak of the war, German interests had secured control of nearly all the more important coffee plantations of Nicaragua, that these plantations sent most of their product to markets other than those of the United States,

and that since the war German interests have resumed control of some of these plantations,⁴

SUGAR

The very considerable investment of capital of the United States in sugar plantations in Cuba is another case in point

QUEBRACHO

One of the most important species of quebracho is found largely in Argentina and Paraguay, and the logs or the tanning extract obtained therefrom are purchased in large quantities by the United States. The Argentine production and export are mainly in the hands of La Forestal Land, Timber, and Railway Company, a British concern which before the war also involved some German, French, American, and Dutch capital. Some years ago this concern acquired control of an American company with a factory in New York. During the war La Forestal was regulated by the British Government. It has exercised its control by buying out or consolidating with rival firms, or by contracting to handle their output, by forming working arrangements with European manufacturers of quebracho extract, and, according to reports, by a pool agreement with producers in Paraguay for the fixing of production and prices.⁵

CINCHONA

The world's commercial supply of quinine is almost entirely derived from the Dutch East Indies, the Java production of cinchona bark making up the great bulk of the total output,

⁴ "Economic Conditions in Central America," in *Mercantile Trusts: Review of the Pacific*, (pub. by the Mercantile Trust Co. of California) March 15, 1926.

although limited quantities are now grown on plantations in British India. The supply, consequently, is controlled by the Kina Bureau,⁶ an organization which has headquarters at Amsterdam, includes representatives of Javan planters and Dutch quinine manufacturers, allots sales of cinchona bark to manufacturers in various countries, and fixes minimum quinine prices. The planters receive a fixed percentage of the net prices set by the Bureau and the surplus from the excess is divided equally between them and the manufacturers. It is of further interest that the Bureau operates through an International Quinine Cartel which includes representatives of the quinine manufacturers of other countries. For example, British interests participate in the syndicate by means of special agreements.

GUTTA PERCHA

While most of the total supply of gutta percha is produced in the Dutch East Indies, with very small amounts originating in British Malaya, the Philippines, and elsewhere, Singapore is the world's primary market for this material, and it is commonly reported that British firms have a practically monopolistic position in this market.⁷ Apparently this is an auxiliary factor in the substantially complete British monopoly of cable production and indirectly in the British domination of the world's cable communication situation. Incidentally the form of this gutta percha advantage illustrates the difficulty of drawing a hard and fast line between industrial and purely trade controls.

RUBBER

The British control of much of the world's rubber has been mentioned above. It is primarily one of political boundary

⁶ *Annals, op cit*, p. 77

⁷ *Ibid*, pp. 89-90

lines. But it is enhanced both by the prime position of Singapore as a collecting and curing center, and by private British ownership of rubber plantations outside of British Malaya.

6 MINERAL PRODUCTS

In contrast with agricultural and forest products, in the field of minerals foreign ownership is so nearly universal that it is a task, not so much to find instances of it as to find those where it is not present. Certain cases of controls of mineral raw materials through government activity have been observed in a preceding chapter, including those of tin, sulphur, potash, mercury, and phosphates, and the case of public and private petroleum control has been discussed, but the ramifications of private foreign ownership may here be considered.⁸ Some of these instances are monopolistic, and, of particular interest, not a few of them involve ownership of producing units in one country by private interests not simply of one other country but of several other countries.

⁸ In the following paragraphs Spurr, J. E., (ed.), *et al.*, *Political and Commercial Geology*, has been freely drawn upon for data concerning specific cases of foreign ownership of minerals. This work, while not published by the United States Government, is not only the only comprehensive collection of such data available in print, but may be considered in a sense semi-official, since it is a compilation edited and contributed to by many respective authorities on the various minerals who are or were officials of the *U. S. Geological Survey*. The work, published in 1918, is not strictly up-to-date, but attempt has been made to make due allowance for this fact. Obviously, the actual cases of foreign ownership and market control are so multitudinous, so scattered throughout the world, and so little a matter of public record (often private interests strive to keep them secret), that it is impossible to make an up-to-the-minute compilation of them. In the chapters of this study only the attempt to marshal the leading facts concerning them, in so far as these are publicly accessible, has been made. For basic data concerning geological occurrence and current mining operations, including production and imports, and exports, reference may be made to *U. S. Geological Survey, World Atlas of Commercial Geology*, Part I, and *Mineral Resources of the United States* (currently), and to Roush, G. A. (ed.), *The Mineral Industry*, an annual handbook, and to *U. S. Department of Commerce, Commerce Yearbook*.

—affairs of joint participation which may be distinguished as “international” rather than “foreign,” in the narrower usages of these terms. It is also to be remarked that the control usually extends to original production, that is to mining, but in certain other cases comes about more largely through ownership of smelters and refineries.

COAL

Coal,⁹ thus far the principal fuel of modern manufacture and transportation,¹⁰ is of prime importance to industrialized nations. But, since it is bulky and to at least some extent limited in its flow in international trade when compared with many other commodities, foreign ownership of its production is less prevalent than that of many other products of mines. It is a truism that other materials often “go to coal,” and the leading industrialized countries for the most part have become so by possessing coal and have then reached forth to add manufacturing raw materials to this base. But cases of foreign controls¹¹ are illustrated by the pre-war purchase by a German combine of mines in Australia and of the Heraclea Collieries in Turkey, and by foreign interests’ acquisitions in China. The former German holdings in Shantung included certain coal reserves. The Kailan Mining Administration is jointly Belgian, British, and Chinese, but is seemingly dominated by British control and management. Particularly has Japan, lacking domestic supplies of certain types of coal, gained controls in China. The Fushun Collieries are owned by the South Manchurian Railway Company, in which the Japanese Government is the leading

⁹ Of organic origin, but of course classified as a mineral.

¹⁰ U. S. Geological Survey, *World Atlas of Commercial Geology*, Part I, pp. 9 *et seq.*

¹¹ *Political and Commercial Geology*, pp. 22-54, Sec. on Coal (by Rice, G. S., & Grout, F. F.).

stockholder, and the Pingshieng Collieries, while Chinese owned, have been the subject of a degree of Japanese control through loans and special agreements recognized and supported in the so-called Twenty-One Demands. The former German domination of certain branches of the coal-tar products industry through patent control has been referred to in a previous chapter.

IRON

Together with coal, iron has formed one of the most important bases of modern industrial power.¹² All of the leading industrialized nations have possessed greater or less deposits of this leading metal. However, some of them have come to have an insufficient ore output for their iron and steel business, and to meet the deficit by imports from non-industrialized as well as other, industrialized, countries. For example, Great Britain buys ore from Sweden and France. Iron deposits are not without their importance in the political relations of nations. The ore of Lorraine has had a possible influence upon Franco-German rivalry for that area, but its transfer to France following the World War only served to render greater the iron surplus of the latter country above current needs and its potential dependence upon Germany's Westphalian coal, making the Ruhr potentially even more of an economic bond between those two powers. Further, before the war it was estimated that approximately a third of the iron and steel industry of France was German owned.¹³

But perhaps of greater significance is the fact that certain of the reserves of non-industrialized countries are foreign owned. In China the large Tayeh deposits are worked by

¹² U. S. Geological Survey, *op cit*, pp. 29 *et seq.*

¹³ *Political and Commercial Geology*, pp. 55-89, Sec. on Iron (by Harder, E. C., and Eddingfield, F. T.)

the Han-Yeh-Ping Iron and Steel Company, Japanese loan influence over which has been mentioned above. Japan, in a sense the "Great Britain of the East," also controls deposits through the South Manchurian Railway Company. In Mexico are foreign iron interests, including capital from Spain and the United States, a furnace near Durango, in the neighborhood of Iron Mountain, is owned by an American company. In Brazil are English, American, and some French iron holdings, while in Chile the largest deposits before the war had come under the control of a Dutch-German syndicate which included the Gutehoffnungshütte, although another lease was held by the Bethlehem, a Midvale subsidiary, United States Steel, and other American interests, for the United States though an extremely large producer of ore at home has also come to purchase important quantities of ore, particularly of certain types ¹⁴

STEEL ALLOY METALS

A number of metals which are used partly or largely as steel alloys may be treated together, although some of them have other important uses. With the growing refinement and variety of steel products, this group of materials assumes an increasing significance in the industrial strategy of iron and steel, and particularly in that of the largest of all producers and consumers of iron and steel products, namely the United States.

Manganese. Manganese, essential in Bessemer and open-hearth steel production,¹⁵ is obtained largely from Russia, India, and Brazil and must be imported in considerable quantities by all leading iron and steel producers. German

¹⁴ For discussion of international steel combines, *vide supra*, chapter on Foreign and International Enterprise.

¹⁵ U. S. Geological Survey, *op. cit.*, pp. 29 *et seq.*

interests have been reported as operating in Russia and Brazil, French interests in Russia, and a Belgian company in Brazil¹⁶ Despite the absence of formal relations between the United States and Russia it has been reported that in 1925 American interests obtained a concession in Russia, in the Chiaturi district — said to be one of the richest manganese deposits in the world

Chromium Chromium, used in making ferro-chrome and chrome steel and also in making some dyes, is mined chiefly in the French Pacific island of New Caledonia and in the British African possessions of Rhodesia¹⁷ Some years ago a British-French group centering about the Chrome Company, Ltd, acquired most of the chrome mines and certain marketing rights in Rhodesia, giving it an approach to monopoly in the world's chromite trade¹⁸ However, new deposits were developed during the war, and the power of the "Paris Syndicate," which had been formed in 1912, was lessened¹⁹

Tungsten. Tungsten is a steel alloy for manufacturing high speed tools, and is employed in production of electrical filaments and apparatus²⁰ Tungsten-bearing ore deposits in China, Portugal, Bolivia, and other countries have been developed by British, American, and German interests British control is contributed to by political possessions in India, Australasia, and Africa, and has been estimated, if the capitalistic be added to the political, as more than 25% of the world's supply, as against an even larger percentage, political plus financial, for the United States, which mines part of

¹⁶ *Political and Commercial Geology*, pp 90-108, Sec on Manganese (by Hewett, D F)

¹⁷ U S Geological Survey, *op cit*, pp 31 *et seq*

¹⁸ *Political and Commercial Geology*, pp 109-128 Sec on Chromium (by Harder, E C)

¹⁹ *Annals*, *op cit*, p 21

²⁰ U S Geological Survey, *op cit*, pp 34 *et seq*

its supply domestically. An illustration of the possibilities of concealed control other than that of ownership or tariffs is furnished by a case in which it was alleged that port privileges at Singapore were so administered as practically to prohibit shipment of Siamese tungsten ore to a non-British country,²¹ but frequently reports of this kind are found to be inaccurate.²²

Vanadium. Vanadium, valuable in producing steels of toughness and torsional strength for axles and automobile parts, is chiefly a product of Peru and the United States,²³ and a concession in the former country to the American Vanadium Company establishes substantially American control of the world's vanadium output.²⁴

Molybdenum. Molybdenum, which increases the elastic limit of steel and is also used somewhat in the electrical industry, is found in ores mined in the United States, Australia, Norway, Canada, and elsewhere,²⁵ and is apparently subject to very little foreign ownership, but there are American interests in Mexico.²⁶

Antimony. Antimony, useful in making anti-friction alloys, type metal, "white metal," pigments and safety matches, and in vulcanizing rubber, is obtained chiefly in China, but also in small quantities in France, Algeria, Mexico, Bolivia, the United States, Peru and South Africa.²⁷ The predominance of China's output is sometimes referred

²¹ *Political and Commercial Geology*, pp. 142-162, Sec. on Tungsten (by Hess, F. L.)

²² However, the United States Department of Commerce has included tungsten in lists of "foreign monopolies of essential raw materials."

²³ U. S. Geological Survey, *op. cit.*, pp. 37 *et seq.*

²⁴ *Political and Commercial Geology*, pp. 163-171, Sec. on Vanadium (by Moore, R. B.)

²⁵ U. S. Geological Survey, *op. cit.*, p. 38.

²⁶ *Political and Commercial Geology*, pp. 191-199, Sec. on Molybdenum (by Moore, R. B.)

²⁷ U. S. Geological Survey, *op. cit.*, p. 65.

to as a Chinese monopoly, but this is not accurate. The one large concern which produces most if not all of the Chinese antimony, the Wah Chang Mining and Smelting Company, is a native company, operating in Hunan province, but foreign interests are involved at least in the trade. Before the World War the antimony export trade of China was largely in the hands of English, French, and other foreign firms. Later this trade was apparently taken over by the native Wah Chang Trading Company, but more recently it has been reported to have passed again to foreign predominance, with greater or less control by the British Cookson's, the French Société de la Lucette, and the Japanese Mitsui Company.²⁸

Nickel. Nickel,²⁹ used for making a steel alloy which is relatively non-corrosive and non-magnetic and little subject to expansion and contraction, and for producing "white metals" and certain coins, is very largely mined in Canada (at times 90%), although small quantities are obtained in New Caledonia, Norway, the United States, and Cuba. The great Canadian deposits are in the Sudbury district, and the trade in the product is chiefly in British hands, although for a time American interests were strongly entrenched in the production, of the four leading companies, two were of the latter nationality, including the International Nickel Company, and the other two Canadian or British including the British-American Nickel Corporation in which the British Government held a controlling interest. During the World War the British Government became aroused concerning this industry, particularly when the German submarine "Deutschland" entered New York harbor and took on a cargo consisting partly of metallic nickel supposed to be

²⁸ *Political and Commercial Geology*, pp. 172-190, Sec. on Antimony (by Ferguson, H. G., and Hall, D. A.)

²⁹ U. S. Geological Survey, *op. cit.*, pp. 33 et seq.

of Canadian origin, and thereafter set up a nationalistic policy in this respect. It later caused the International Nickel Company to transfer its refinery operations to Ontario. However, American capital is apparently still largely involved in the Canadian fields.³⁰ Before the war there were German interests operating in Norway and in New Caledonia. American interests are also found in the minor Cuban production. However, the Canadian situation, partly with American capital, is the dominant one.

COPPER

The world's copper,³¹ lead, and zinc industries, while involving other international commercial controls, at the outbreak of the World War presented outstanding illustrations of the international scope and effectiveness of one of the most remarkable of all "world trusts," which has been described in a previous chapter. That the control was exercised less through mine ownership and more through trade arrangements scarcely lessened its power.

Copper, apparently second to iron in industrial importance among metals, was probably the first metal used by man, was utilized for thousands of years in fashioning vessels, ornaments, and weapons, and at the present time is employed in making brass and bronze and above all is consumed in great and essential quantities in the electrical industry. While formerly mined chiefly in England, and later largely in Chile, it is now produced in its greatest bulk in the United States, but also in Chile, Japan, Mexico, Spain, and many other countries including Australia, Canada, Peru, and Africa. The production in the United States from

³⁰ *Political and Commercial Geology*, pp. 129-141, Sec. on Nickel, (by Corbett, C. S.)

³¹ U. S. Geological Survey, *op cit*, pp. 39 *et seq*

domestic ore alone averages well over half of the world output and is supplemented by considerable production from ores and concentrates imported from commercially controlled mines in Mexico, Peru, Chile, and Canada. This production yields both a large domestic consumption and a sizeable export trade, which, oddly enough, was formerly dominated by German interests.³²

Germany was the largest pre-war buyer of the American exports, and by an intricate system of selling arrangements, the three German combines, Merton Company, the Metallgesellschaft, and Aaron Hirsch of Halberstadt, had a considerable control of their marketing. The Japanese production, which has become fairly important, is apparently under native control, but, with respect to mining rather than marketing, capital from the United States has gone into Mexico, Canada, and South America, increasing the production control of this country to approximately three-fourths of the world supply. British, French, and Belgian interests have also entered the fields just mentioned, while German capital had been active in Mexico and South America. The war broke the German buying domination in the United States, leaving the United States with a leading capital control in its own and several foreign fields.

LEAD

This metal is also subject to much international exploitation. It is utilized in the form of sheets, pipes, and cable covers, and in oxide form in manufacturing paints, batteries, glass and pottery.³³ The largest production is in the United

³² U. S. Federal Trade Commission, *Report on Cooperation in American Export Trade*, 1916, Part I, pp. 357 *et seq.* and 365 *et seq.* *Political and Commercial Geology*, pp. 223 *et seq.*, Sec. on Copper, (by Paine, F. W.)

³³ U. S. Geological Survey, *op. cit.*, pp. 42 *et seq.*

States, which smelts normally between one third and one half of the world supply, largely from domestic ore but partly also from ore imported chiefly from Mexico. Despite a large domestic consumption, partly due to a large development of the paint industry, this country has important lead exports, which were formerly partly manipulated by the famous "German Metal Trio," although its interests are active in lead mining in Mexico and elsewhere. Other important ore producers are Australia, Spain, Mexico, and Canada, while lead is smelted also in Spain, Germany, Australia, and Mexico.

International control³⁴ has been effected partly through ownership and partly through marketing arrangements. The industry in the United States is in the hands of a number of large groups, but formerly there was German admixture in the structure. For example, L. Vogelstein & Company owned the International Metals Selling Company, which had marketing contracts covering much lead, copper, and other American produced metals. In turn the Vogelstein company was partly owned by Aaron Hirsch of Halberstadt, while the American Metal Company was partly owned by the Merton Company and partly by the Metallgesellschaft. It was in these ways that German interests maintained important metal manufacturing centers, especially at Frankfurt-am-Main, and elaborate, interlocking European metal industries. Practically all of the smelters of Mexico were owned by companies of the United States, but their exports, too, were controlled by an international syndicate in which the German interests were apparently dominant. The syndicate had a somewhat similar Australian control. British capital had made excursions in production abroad, and since

³⁴ *Political and Commercial Geology*, pp. 261-293, Sec. on Lead (by Huyder, F. B.), U. S. Federal Trade Commission, *idem*.

the elimination of the German interests, controls production in the British Isles, Australia, Burma, Canada, somewhat in Italy, in part of Spain, and at places in Mexico, and formerly was active in Siberia

There can probably be found no more interesting and extreme example of the honeycombing of the international industrial structure than in the lead situation just prior to the World War. In addition to the various other controls just mentioned, there was formed in Paris in 1909 "The International Sales Association" which came to be known as the "Lead Convention." This syndicate represented directly and indirectly an interweaving of practically all the leading producers and sellers and buyers of lead ore, metallic lead and lead manufacturers of the leading countries of the world and also indirectly involved other metal mining and manufacturing industries, as well as chemical, banking and other interests, of various European, American, and other regions. It was renewed in 1910 and 1913. Briefly, this syndicate was dominated by the same German interests that dominated the German Zinc Syndicate, which were (1) the Metallgesellschaft, the Metallbank, the Metallurgische Gesellschaft, and the Merton companies, including the Merton companies of London, (2) Beer, Sondheimer & Company, which controlled many German metal and chemical concerns, and (3) Aaron Hirsch of Halberstadt. In addition to European control, the Association dominated the lead marketing situation in the United States, Australia, and Mexico. For example, in the United States and Mexico all lead exported was controlled by the American Metal Company, affiliated with the Association through a German company owning stock in it, or by the American Smelting and Refining Company, acting in concert with it. Again, in Australia the syndicate prevailed through an association of

English lead refineries and through the marketing of the lead of the Port Pirie smelter by the Merton Company. The international "convention" practically controlled world prices.

Of equal interest was the partial breaking down of this intricate structure as a result of the war and post-war nationalistic policies. In France, at the instance of the French Government, a series of national trade associations were formed for various groups of industries. These were known as Consortiums. The Consortium for the mineral industry, the "*Société Minerais et Metaux*," was organized under the auspices of the French Government, to group together French metal producers at home and abroad, in a cooperative association which would control the purchase and sale of metallurgical products.³⁵ In the British case governmental action at least nominally eliminated all German control throughout the Empire. Various British syndicates were formed, and a "metal bank," "*The Chemical and Metallurgical Bank*," was established in London. There was also formed, in 1918, a British Metals Corporation, with representatives of the Imperial Treasury on the Board of Directors, to finance British non-ferrous metal companies and to draw empire metal production within the field of one marketing organization. In the United States the Alien Property Custodian sequestered alien enemy property, tangible and intangible, including the German holdings in American metal concerns, and later sold many of these holdings to American and foreign concerns. Subsequent reports have indicated that by indirect purchase through intermediaries certain of the factors in the old German combine may be attempting to rebuild

³⁵ It embraced a large number of companies producing or marketing copper, lead, zinc, iron, antimony, platinum, and other metals, whose operations extend to Algeria, Tunis, Spain, and other countries.

the former international metals structure. However, while the post-war period has witnessed the birth of new international "trusts," involving in some cases an affiliation of the interests of various countries which were enemies in the World War, as in the cases of steel and steel rails and potash, there is little evidence of any substantial restoration of the elaborate world fabric once dominated by the famous German non-ferrous "metal trio." Indeed, in 1927 there was a partial dissolution of a German domestic Non-Ferrous Metals Cartel which had been formed in 1922 by the Metallbank and Metallurgische Gesellschaft, the Metallgesellschaft, and the Deutsche Gold-und-Silber-Scheideanstalt of Frankfurt, with, however, a large amount of cooperation remaining.³⁶ On the other hand, a large amount of foreign ownership still exists in the metals field, as in the case of interests of the United States in Latin America, and, in view of the strong tendency toward the renewed growth of international industrial combines even regardless of World War political enmities; and especially considering that post-war economic nationalism in the United States did not result in any such measures as those just described in England and France, it is by no means impossible that structures of international affiliations in the form of syndicates or otherwise will again become important in the field of metals as well as of other raw materials wherever such an arrangement would prove mutually profitable to the leading companies in the various countries.

ZINC

This third of the three leading non-ferrous metals³⁷ was known to the ancient world, and is now used in alloying with copper to produce brass, and in large quantities for gal-

³⁶ U. S. Department of Commerce, *Commerce Reports*, February 28, 1927, p. 549. ³⁷ U. S. Geological Survey, *op cit* pp 44 et seq.

vanizing iron and making paints. Again in this case the United States is the largest producer and consumer, with a metallic output of one third to nearly one-half of the world total and with a supplementing of its domestic ore supply by some imports of ore and concentrates. Germany is also a large producer of metallic zinc while other producers of ore and metal include Australia, Italy, Spain, Algeria, Tunis, and Japan. The last named country has increased its metallic output in recent years, by smelting its own ore and ore imported from Australia, Indo-China, and Siberia. Again in this case, as in those of copper and lead, Great Britain, France, Belgium, and other industrialized countries, with an insufficiency of raw material, are important consumers.

The international zinc control situation³⁸ has closely paralleled that of copper and lead, described in some detail in the paragraphs above. The most extensive types of control have been those of ownership of reduction plants and of buying and selling combinations rather than of ownership of deposits. Here again the "German metal trio" was dominant before the war, through its affiliations with the "German Zinc Syndicate" (*Zinkhüttenverband*) which was in a sense its creature. This syndicate controlled German production and had agreements with companies in various other countries. In the United States there were various companies, but some of the most important ones had connections with the German concerns. Indeed, it is probably true that the Trio's control was even greater in the case of zinc than in those of copper and lead and other non-ferrous metals.

The post-war situation was largely different. Not only was the Zinc Syndicate's grip in Allied countries shaken

³⁸ U. S. Federal Trade Commission, *idem*, *Political and Commercial Geology*, pp. 294-316, Sec. on Zinc (by Huyder, F. B.). *Vide also* Appendix *infra*.

off, but Germany, as a political unit, lost Silesian deposits by the territorial transfer to Poland, rendering her metallurgical industries all the more dependent upon foreign ores, including those from Mexico. In Great Britain a Zinc Producers' Association was formed, and contracts were made in which the Government participated. Foreign ownership of deposits throughout the Empire and of smelters in the United Kingdom was at least for the time eliminated. French interests extend to Algeria, Tunis, Belgium, Poland, and Spain, and there are Belgian interests in France, England, Sweden, and other countries. The interests of the United States, largely by domestic ownership, retain the largest ore reserves and reduction capacity.

In 1928 it was reported that a new European Zinc Syndicaté had been formed, including interests of Germany, France, England, and Poland. However, the distinction between international cartelization and syndication on the one hand, and foreign ownership on the other hand, should be borne in mind.

TIN

The United States is the largest consumer of tin,³⁹ mainly because of its important tin-plate industry, but is dependent upon other countries for the raw material, some of which is produced by the Banca, Billiton, and Singkep mines of the Dutch East Indies, by those of Bolivia, and, to a small extent, by mines in China and Siam. However, the production in British regions normally approaches one-half of the world supply. This latter production occurs to a small extent in Cornwall, the mines of which were once the world's chief tin source, and also takes place in Australia and British Africa. But British Malayan output is the dominant factor.

The ore production there is no longer so important as formerly, but Singapore remains the world's greatest tin smelting center, and in a recent year, for example, the United States obtained nearly eighty-five per cent of its supply from the United Kingdom and the Straits Settlements. The governmental measures designed to retain the Singapore dominance have been noted above as a form of public control, but that control in turn partly rests upon private exploitation.⁴⁰

SULPHUR AND PYRITE

The joint Italian-American sulphur monopoly, based upon predominance of Italy and the United States in sulphur production and exercised through price agreements of private interests, was described in the preceding chapter on public controls. The market domination rests upon a background of Italian governmental consortium measures, and at the same time constitutes an interesting case of private marketing exploitation by means of an international affiliation.

Pyrite, as a source of sulphuric acid, competes with sulphur with difficulty, due to a more expensive process. The case of pyrite involves private international exploitation for there have been British and some French investments in the important Spanish deposits, while capital from the United States has been active in the fields of Canada, Cuba, and Mexico, and even of Cyprus.

ALUMINUM

This metal finds important use in engine construction, where lightness and resistance to oxidization are desired, and in the making of utensils.⁴¹ It is often pointed out that it has

⁴⁰ *Political and Commercial Geology*, pp. 317-336, Sec. on Tin (by Hill, J. M.)

most of the virtues of iron, in addition to its own, and might rival that king of metals if expensive difficulties of recovery were overcome. The United States is industrially dominant in this case.⁴¹

The leading production countries are the United States and Canada, and others include France, Ireland, India, Italy, and several countries of South America. In the United States the Aluminum Company of America possesses most of the deposits, and the same company owns important amounts of the stock of most of the aluminum works of this country and Canada, it has established its premier position through expansion of electrical plants, patent controls, possession of domestic deposits, and acquisition of new deposits in South America. It is reported to have been a party, before the World War, to agreements with a French group, L Aluminium Française, and a German-Swiss combine, Aluminium Industrie A G, for the stabilization of world prices.

EMERY AND CORUNDUM

Of these abrasives, the chief countries producing the former are the United States and Greece, while the latter is obtained chiefly in South Africa, India, Madagascar, Canada, and the United States. The Greek emery industry was placed under French control during the World War.⁴²

MAGNESITE

The United States is the leading producer of magnesite, but also imports some of this material used in metallurgy, as in

⁴¹ U S Geological Survey, *op cit*, pp 66 *et seq*

⁴² *Political and Commercial Geology*, pp 349-355, Sec on Aluminum (by Hill, J M)

⁴³ *Ibid*, pp 356-362, Sec on Emery and Corundum (by Katz, F J)

refining furnaces and crucibles ⁴⁴ Other producing deposits are located in Lower California, Austria, Greece, Canada, and off the coast of Venezuela American interests have operated in Lower California, the Venezuelan islands, and Canada In a recent year it was reported that of seven companies operating the Greek deposits, four were apparently Greek, one English, one Dutch, and one from the United States ⁴⁵

GRAPHITE

Graphite, used in crucibles, lead pencils, electrical work, and as a lubricant, is obtained from widely scattered deposits, some of them in Bavaria, Chosen (Korea), Mexico, and the United States, but the largest output is in Ceylon and Madagascar ⁴⁶ British concerns control the situation in Ceylon, and a British company operates a concentrating plant in Madagascar British interests also apparently own some deposits in Italy and Spain, while there is also Belgian capital in Madagascar British, French, and Italian interests dominate the European marketing of graphite Capital from the United States has mines in Mexico and Canada ⁴⁷

MICA

The United States is the chief consumer of mica, important in the electrical industries for insulating, and also used in making stove fronts and sundry other articles, and this country, like others with a highly developed electrical industry, is dependent, in part, upon imports India, Canada,

⁴⁴ U S Geological Survey, *op cit*, pp 69 *et seq*

⁴⁵ *Political and Commercial Geology*, pp 363-371, Sec on Magnesite (by Stone, R W)

⁴⁶ U S Geological Survey, *op cit*, pp 67 *et seq*

⁴⁷ *Political and Commercial Geology*, pp 372-379, Sec on Graphite (by Ferguson, H G, Grout, F F, and Dub, G D)

and the United States account for nearly all of the world production of sheet mica, but much the largest output is from India.⁴⁸ In that country the enterprise is partly native, but before the war there were also British, German, and American interests. In Canada the General Electric Company, of the United States, owns a large mine, and a company from the United States has also operated in Brazil.⁴⁹

ASBESTOS

The United States is the largest manufacturer of asbestos, obtained partly domestically but chiefly by import, and used as an insulator against heat. Canada is much the largest producer of the raw material, and other worked deposits are in Russia, Australasia, South Africa, and Italy. The business interests in the Canadian field are Canadian and English, with some from the United States, but apparently with British predominance. British interests also apparently control production in South Africa, Australasia, and Italy.⁵⁰

BISMUTH

Bismuth is used in the chemical industries, and is produced chiefly in Bolivia. The United States produces a considerable proportion of its domestic consumption, but imports a marginal amount. In Bolivia⁵¹ an export tax has been in operation, and a British firm, with affiliations with concerns in other countries, apparently controls production.

MONAZITE, THORIUM, AND MESOTHORIUM

Brazil and British India, particularly the former, are the chief producers of the raw material, monazite, and the

⁴⁸ U S Geological Survey, *op cit*, pp 71 *et seq*

⁴⁹ *Political and Commercial Geology*, pp 380-387, Sec on Mica (by Hall, D A)

⁵⁰ *Ibid.*, pp 388-401, Sec on Asbestos (by Bowles, O)

⁵¹ *The Annals, op cit*, p 34

United States is the largest manufacturer of thorium nitrate and gas mantles. Before the World War German interests dominated the Brazilian situation, with an agreement with the Brazilian Government granting them a monopoly of the monazite sand deposits of two important states, and this was accompanied by a Brazilian export tax. When deposits were discovered in India in 1909 German interests also came into control there, as a result of the war British interests took over these deposits. American concerns are reported to have been active in Brazil, but it is reported that the world's supply is now dominated by French, Brazilian, and British interests.⁵²

BORAX

The case of predominance of British interests in borax production in the United States, the chief source of world supply, and in other countries, has been noted in a previous chapter dealing with world combines.

PHOSPHATES, POTASH, AND NITRATES

The highly important cases of phosphates, potash, and nitrates were discussed in the preceding chapter on public controls, but it should be recalled that they also involve noteworthy instances of private international exploitation.

DIAMONDS

A list of the world's essential raw materials can scarcely be said to include diamonds,⁵³ yet the international industrial control in this instance⁵⁴ has not been without a considerable

⁵² *Ibid.*, pp. 81-82, *Political and Commercial Geology*, pp. 216-222, Sec. on Monazite, Thorium, and Mesothorium (by Moore, R. B.).

⁵³ Although the Secretary of Commerce of the United States, in including this item in a category of foreign controls discussed in a recent address on this subject, has permitted himself the humor of remarking that diamonds are essential to the American business of preparation for marriage.

⁵⁴ *The Annals*, *op. cit.*, pp. 82-83.

economic importance. Diamonds are obtained in South Africa, the Belgian Congo, India, and Brazil, but in recent periods all but a small percentage of the total output have been produced by the Kimberly mines of South Africa. There one leading company, the DeBeers Consolidated Mines, Ltd., dominates production and is the largest factor in a diamond syndicate. This company was originally a consolidation of all the mines in the Kimberly district, and later acquired a controlling interest in the Premier Diamond Mining Company, of the Transvaal, the second largest producer. The German mines in former German Southwest Africa were taken over by the Anglo-American, and those of the Belgian Congo by the Société Internationale Forestière et Minière, both of these groups involving American interests. Restriction of production has been practiced among some of the leading groups, which, shortly after the World War, concluded an agreement. This agreement included the following features: (1) Allotment of supplies to the market on the basis of sales in the preceding quarter; (2) allotment of quotas to DeBeers, 51%, Premier 18%, Jagersfontein, 10%, and Southwest Protectorate, 21%; (3) a London syndicate as an exclusive sales agent, (4) a fixing of the price paid by the syndicate, and a division of profits between syndicate and producers. This arrangement approached the status of public control, through the participation of representatives of the Union Government of South Africa in the negotiations, but was primarily a case of private control.

GOLD

The principal gold⁵⁵ producing region at the present time is the Transvaal, with the United States second, and some pro-

⁵⁵ U. S. Geological Survey, *op. cit.*, pp. 49 *et seq.* For an exhaustive compilation of data on various phases of the gold and silver situation in

duction in Australasia, Russia, Canada, British India, Rhodesia, Mexico, and numerous other countries. Altogether the British Empire has been producing over half of the total output and the United States one-fifth to one-fourth. Private control is especially difficult to trace in this case, since the securities of gold mining companies are frequently transferred freely among different individual owners in international financial markets. The following is a roughly approximated summary of such control.⁵⁶ The United States — largely native, i.e. a small percentage British. Canada — roughly two-thirds American and one-third British. Mexico — British, American, French, and German, in order named. Colombia — British one-half, and French, Belgian, and American. Central America — British one-fourth and American one-fourth. Russia — formerly much German capital. Chosen (Korea) — some British and some American capital, some of the best deposits having been obtained as concessions to Americans before Japanese assimilation in 1910. Japan — largely if not entirely native, since mineral ownership is reserved to the Government, which may grant working rights to persons and companies, and since a law of 1890 excluded all foreigners from such rights, though a law of 1900 admitted foreigners to them if their establishments be placed under Japanese control. China — Japanese and other foreign. Belgian Congo — partly American. Australasia — formerly largely German, recently small amounts of Dutch and Belgian capital, but mainly British. The Transvaal — formerly largely German, but recently mostly British.

the United States and throughout the world, *see* volumes published by the *Commission of Gold and Silver Inquiry, U. S. Senate* (Pursuant to S. Resol. 469, 67th Congress, 4th Session, May 29-31, 1923), serial numbers 1 to 9 incl., appearing in 1923, 1924, and 1925.

⁵⁶ *Political and Commercial Geology*, pp. 462-494, Section on Gold (by Orchard, John E.)

interests, with some French interests. The case of gold is particularly interesting because of the large amount of industrial control which had been obtained before the War by German interests in areas which were possessions of other leading world powers.

SILVER

Silver, used somewhat in the arts and considerably in the manufacture of subsidiary coinage in gold standard countries, is particularly important in silver currency countries such as China and British India. Approximately half of the world's supply is obtained in the extraction of other metals, such as lead and copper.⁵⁷ The United States, Mexico, and the British Empire, especially in Canada and Australia, are the leading producers, but the American and British controlled shares are enhanced by private foreign exploitation.⁵⁸ In this way the United States, with its own mines, with over half of the world's smelting and refining capacity, and with private control of approximately one-half of the Mexican and one-fourth of the Canadian output and much of the output of Central and South America, attains a total share of well over one-half of the world supply. British interests are active in Canada, Australia, India, Africa, and also in Mexico. In this case also, as in that of copper, lead, and zinc, trade control has been added to industrial control, and the London silver market has tended at times to dominate international trade in silver and in turn to be dominated by a few leading firms, which is not altogether unnatural in view of the large demand for silver in British India.

⁵⁷ U. S. Geological Survey, *op. cit.*, pp. 49 *et seq.*

⁵⁸ *Political and Commercial Geology*, pp. 495-505, Sec. on Silver (by Painé, F. W.). Cf. also *Commission of Gold and Silver Inquiry*, U. S. Senate, *op. cit.*

PLATINUM

Useful in the chemical and electrical industries and in the arts, platinum has been chiefly obtained in the Ural mountain section of Russia and in Colombia, and also in very small amounts in Canada, the United States, and other countries.⁵⁹ Following the World War, the Russian output tended to decline and that of Colombia to increase. Before the War, the Russian field was dominated by French interests, through the *Compagnie Internationale du Platine*, which owned mines and had exclusive marketing contracts with two large Russian producers. But the largest part of the Russian output was refined by one concern in England, and there were other refining concerns in Germany, the United States, and other countries, some of which were structurally interlocked.⁶⁰ In Colombia, through companies subsidiary to one New York company, private American interests are dominant.

THE SIGNIFICANCE OF PRIVATE FOREIGN
AND INTERNATIONAL EXPLOITATION
OF RAW MATERIALS

Thus private foreign and international exploitation of raw materials, though less spectacular, is much more widespread (almost universally so) and basically more significant than the cases of public control of these fundamentals of world industry. It is particularly disclosed in the field of the world's minerals, in which the United States and Great Britain are far in the lead, their ownership and output through political possession being greatly enhanced by such private control, and in which the other leading countries

⁵⁹ U S Geological Survey, *op cit*, pp 47 *et seq.*

⁶⁰ *Political and Commercial Geology*, pp 508-521, Sec on Platinum, (by Hill, J M)

have been, before the World War, Germany, France, and Belgium, and Japan, and since the war, this same list but with Germany's position greatly reduced and with Japan's tending to enlarge. The industrial success of these countries in such extensions of private economic activity has contributed in a major way to their becoming and remaining world powers, and is explained partly by the economic and political foreign policy of their governments but even more so by the aggressiveness and efficiency of their private industrial interests.⁶¹ On the other hand, this international industrial system, although it involves possible disadvantages, may also be viewed, so far as exploited areas are concerned, as bringing about the development of primary industries in countries where otherwise such development might not take place or might occur very tardily,⁶² and as thus also contributing to the industrial advancement of the world as a whole. Isolation is decreasingly prevalent in the economic order, and this results less from public policy than from natural economic processes, such as those indicated in the instances cited above, these processes are more obviously and immediately commercial, but the most fundamental ones are industrial. In short, commercial ties bind, but the industrial structure underlies, the economic world.

⁶¹ The point was developed at the World Economic Conference, Geneva, 1927, that one of the major economic difficulties of the time is the low level of use of capital goods, and that this and other problems might be partly solved "if the development of unused or inadequately developed resources throughout the world could be initiated and financed" (*File U. S. Department of State, Report of the Chairman of the American Delegation to the International Economic Conference, Geneva, May 4-May 23, 1927, PP. 3-4*).

N. B. While mere international cartelization is to be carefully distinguished from actual foreign ownership, reference should be made in this chapter to the cases of foreign ownership involved in the "world trusts" described in Chapter IX (*supra*) and in the Appendix (*infra*).

CHAPTER XV

WORLD ECONOMY AND WORLD POLITICS

THE BASIC ECONOMIC CONSTITUTION AND POLICIES OF INTERNATIONAL RELATIONS

THE PRESENT volume should not be concluded without a summary view of the contents of the foregoing chapters and a coordinated observation of the chief principles and processes therein discussed. The general purpose of this study is to consider the form and functioning of the world economic and politico-economic order, which is a thing of such organic and coherent nature as to justify the term world economy. This order, while involving certain basic and related factors, such as those of geography and demography, and of law and politics, from both a practical and a theoretical economic viewpoint, primarily falls into four cardinal parts, namely, world industry, world trade, world shipping, and world finance. To be sure, industry is commonly thought of as a national or local phenomenon, partly giving rise in turn to the other processes such as international trade, but enough concrete facts have been presented above to disclose the presence of a true international industrial structure, apparent not only in the general industrial interdependence of nations, but more particularly in a growing fabric of strictly international industrial enterprise; and the industrial structure is the core of the

economy, whether the latter be a national or the international one

Thus, the industrial phase of international economic relations is doubtless the most fundamental and the purpose of the immediately preceding chapters has been to examine it. The usual, if not almost exclusive, approach to analysis of such relations has been through a consideration of international trade, with more or less completely separate treatment of shipping and finance, and with consideration of industry as important but as involved in a somewhat incidental and haphazard way. It is true, and significantly so, that all of these major processes are interrelated, indeed it is one of the purposes of this study to emphasize that fact. It is also true that international trade constitutes a kind of automatic representation of all of the said processes, that it is the result which flows from all of the industrial conditions and relations lying back of it and calls into existence as auxiliary to itself the stream of transportation and much of the course of finance. But it also must become apparent that production, though of course influenced ultimately by, as well as influencing, consumption, is the starting point, the most fundamental phase of the entire process, and that such things as trade, and consequently shipping and finance, cannot be properly understood without first recognizing the industrial basis. The specific purpose here, then, has been to survey and analyze, in a comprehensive and coordinated way, this structure which is basic in world economy.

THE SETTING OF WORLD ECONOMY

In turn world industry, like the others of these four major processes of world economy, cannot be substantially comprehended without a preliminary view of the basic and related factors in which it finds its setting. Of these clearly

the basic ones are the geographic factor and the social factor, or in terms of natural science, environment and man — these are the two prime agents. They are so familiar that in one sense reference to them as such seems trite or highly summary, and yet in another sense, their very familiarity, together with their real complexity, leads to their frequent neglect in attempts at a perspective understanding of the economic processes. The innumerable facts and forces of the environment, including not simply such inescapably obvious things as mineral resources, but also soil, topography, lakes and rivers, coast line, and climate, and the total non-human organic environment rising out of this inorganic setting, constantly and inexorably condition society's economic development, to explain any given phase of the economic relations of certain parts of the world, the peculiar geographic conditions present must first be taken into account.

The social factor is equally basic. This statement, also, is in a sense a reaffirmation of the obvious, but bears repetition. Similarly this factor is one which is highly complex, and which is not yet reduced and may never be reduced to complete analysis, such things as the personal whims of consumption in a given market area of the globe often defy dissection, and in dealing with an economic problem a dismissal of the conclusion with a simple reference to "the psychological factor" is a humor that reflects the ever-present variable and indeterminable element in things economic. Since, however, the purely human phase largely accounts for the entire functions of labor and management, as well as for the conscious direction of land and capital in the economic order, this factor cannot and need not be waved away as intangible in the treatment of economic phenomena, local or international. However difficult it may be to deal with such matters in a quantitative and exactly measurable way, they cannot be

ignored in examining the economic relations of different areas. Density and employment of population, emigration, and immigration, consequent supply and character of labor and also of management, a probable difference in the economic capabilities of different races and regions, and the relation of population and resources — these things must be taken into fundamental account and indeed may be at least roughly estimated en masse in a comprehension of the economic status of the various countries and of their position in the structure of world industry and of total world economy.

These two factors, the geographic and the social, are the ones that create the economic system. This system, most broadly viewed, produces an organization made up of units of economy, or units within which the total economic cycle of production, exchange, and consumption is generally completed. Here, while isolated conditions may preserve vestigial remnants of family or town economy, and while as widely different countries as the United States and Afghanistan may boast a *comparatively* large *degree* of economic self-sufficiency, even the most superficial knowledge of the facts of international trade or of international economic dependence for materials or markets compels recognition of an established and growing, though necessarily not perfectly complete, *world economy*. Within this world economy, however, must be observed national economies, or units of partly distinct character, which are sufficiently diverse to bear a complementary relation one to another and thus to afford the most logical basis for a world economic organization, this world order is less like a pool of water than a universe of stellar systems, each revolving in its own course but with definite relations to the others.

The purely political organization of the world is some-

what different, although much depends upon use of terms. If "political" connotes all organized society, then the political order embraces the economic order. If, however, it refers only to governmentally organized society, then world political organization and world economic organization present some contrast. Thus viewed, the political organization of the world is composed of states, which according to certain doctrines at public law possess certain juristic attributes, such as sovereignty and independence. But the practical difficulty of sustaining such unconditional concepts, in either theoretical doctrine or the actual problems of international law, justifies the view that, so far as the world order is concerned, they possess a certain artificiality. Such things as the clashes of theoretically complete sovereignty and the practical cognizance of "states with qualified status," are cases in point. On the other hand, it would be futile to attempt a sharp separation of the two orders, which undoubtedly react, one upon the other. The constant and far-reaching effect of governmental policies upon economic conditions is a familiar phenomenon, even where such policies run somewhat counter to natural economic tendencies, but there are limits to this process. For example, a nation may, by governmental means, such as import duty or production bounty, develop within its jurisdiction a branch of agriculture not ideally suited to the native soil and climate, but it cannot artificially create a certain mining industry where the necessary mineral resources do not exist. Indeed, the margin within which purely political forces may alter economic conditions is probably not extremely wide if the total sphere of economic activities be considered; yet certainly some such alteration does occur. In turn the economic order fundamentally conditions the purely political. Governmental policies in economic matters are largely the result of,

the existing economic conditions and their success ultimately depends upon their adaptation to those conditions. Again, the course of modern history discloses the tendency toward endurance of those states founded upon, not necessarily economic uniformity, but balance and solidarity in the national economy, and the converse tendency toward the decline and disintegration of nations possessing no economic unity. It may probably also be asserted that the unity of the total world political order, despite many efforts at international political organization, through various sorts of conferences, concerts, alliances and leagues, is considerably less than the great and seldom realized degree of unity of the total world economic order which results, not from conscious social effort, but from the natural and almost inexorable processes of industry, trade, transportation, and finance — processes which yield, not immediately a world polity, but certainly a world economy. Yet through the constant interaction of purely political and economic forces the two orders show no little tendency toward the emergence of a common world order.

The legal factor in international economic relations is somewhat similar, in the aspects just mentioned, to the political factor of which it is in a sense a part. A considerable part of public international law deals with international economic intercourse, by which it is partly shaped. Though positing an abstract conception of relations only of one state with another, in practice it bends to meet the private nature of industrial, commercial, and shipping relations. This is even more true of so-called private international law, which so largely comes into being as a result of the necessities of such relations. Moreover, to the extent that these legal systems are not sufficiently adapted to such relations, the economic system itself tends to erect quasi-legal and extra-legal

devices, as in the cases of extra-legal adjudication of commercial disputes, for the accomplishment of the same purpose.

The territorial system, in one sense a phase of the geographic factor, and in another sense an adjunct of the political system wherein political entities take unto themselves not only domestic jurisdictions but also outlying areas varying in status from colonies and dominions to spheres of influence or mandates, is also a system reacting upon but largely influenced by the economic order. It is true that colonies may be acquired for purposes of military and naval strategy, or possibly for the sheer purpose of conquest itself. Yet fundamentally the present colonial system or the whole of modern imperialism may be chiefly explained in economic terms. Except under peculiarly favorable circumstances, as of similarity in climate, it leads to surprisingly little migration, so that there is usually a degree of hollowness in the phrase, "outlet for congested population" even under conditions of "territorial propinquity," but on the other hand the system as a whole and almost every part of it discloses a certain dovetailing of dissimilar economic conditions of resources and markets, a certain mutual advantage in the complementary character of the metropolitan and the colonial economy. Much of the justification of the system, if carried out without mere ruthless exploitation of the type prevalent in the post-discoveries period and without discriminatory closed-doors leading to conflict, is found in this same fundamental feature of compensatory character of the economies involved and of the resulting economic development.

THE STRUCTURE OF WORLD ECONOMY

It is in this setting, then, upon the basis of fundamental geographic and social factors, and in connection and interac-

tion with related political, legal, and territorial factors, that world economy stands. The one central principle which governs this economy, namely compensatory economic differentiation, is best studied, not in isolated phenomena such as the export of a single commodity from a single country, nor in the pathology of international relations as in the case of tariff retaliation, but rather in the anatomy and morphology of the entire order and of major and representative parts of it; and in making the analysis in terms of structure, the obvious fact that things economic are always dynamic and never static need not be lost sight of — for economic units are organisms. As previously intimated, world economy represents an order in which national or other regional economies bear such a definite and primarily complementary relation to each other as to form the parts of a whole, trade does much to bind them together and trade has been defined as “an exchange of unlike products.” It follows that the total order is best comprehended in an examination of the make-up of the parts. The composition of the economy of Great Britain and the consequent give and take between it and other parts of the world, with a peculiar degree of “industrialization” (that is, development of manufacturing) and with a vast and constant inflow of raw materials and foodstuffs balanced by interest and service payments and with a similar outflow of manufacturers and services, offers the clearest illustration. It is such organic facts that explain the many phenomena of international economic relations and the policies evolved about them. To change the simile, national economies are like the units of a complex machine, each partly completing its own function but with cogwheels steadily intermeshing in the increasingly coordinated machinery of world economy.

A closer examination of a major national economy like

that of the United States shows the importance of analysis of such a structure in order to understand its relations with similar structures elsewhere, and also reveals the tendency for such a structure to change, with resulting changes in its foreign relations. Most national economies may be classified as what, for lack of better terms, may be called complex or "industrialized" ones, and simple or "frontier" ones, or as those passing from the latter to the former stage, the difference is one of economic (though not necessarily historical) maturity. Here of course the geographic and social factors are basic. Upon them arises an industrial system with distinguishing characteristics — and always industry, in the broader sense of the term, is the corner stone of the structure. (In dealing with immediate problems this is often not sufficiently emphasized, for example, following the World War too often the problem of economic rehabilitation in a European country was expressed as merely a currency problem or a government budget problem, whereas all these trace directly back to the condition of actual production.) Generally speaking a complex economy is one in which secondary industries (conversion and manufacturing) predominate over, or have a relatively larger place compared to, primary industries such as farming, mining, and lumbering, and in which industry, whether primary or secondary, tends to be relatively intensive, as in practically all manufacturing, or as in the production of dairy products rather than mainly meat and hides or of beet sugar rather than cane sugar, or as in a higher versus a lower wheat yield per acre. To a considerable extent this is a matter of the relative availability of the four economic factors in production, comparative abundance of land leading naturally to extensive, or of labor and capital to intensive, production. Industrialization, that is, this predominance of secondary industry, tends to lead to di-

versification, for manufacturing tends per se to be diversified, and also probably to a relatively larger growth of tertiary or service industries. Many other phenomena may be discovered which are either causes or effects, depending upon the viewpoint. The character of the national wealth and income may tend to reflect the type of economy. The size, growth, density, distribution, and employment of the population go back to the social factor, and fundamentally condition the labor supply and the relative abundance or scarcity of land. The economic maturity tends to produce a normal capital surplus, which may be used either as a substitute for labor in the form of machinery and other capital goods or as a basis for investments abroad, or both. Even the diet may be affected, as in the smaller per capita meat consumption in most industrialized countries than in those economically frontier countries which have livestock industries. The type of economy in turn shapes the entire normal economic position in its relation to that of other countries. The very highly industrialized country tends to import raw materials (foodstuffs and industrial raw materials) and to export finished products, to trade therefore to a considerable extent with countries of the other type of economy (though of course this is not exclusively the case, for unlike manufactures may be exchanged and England still normally exports coal), and in the most typical cases to furnish other countries shipping service and capital and other financial service, with a consequent compensation in the balance of payments and with frequently direct relation between the shipping and the trade and between the foreign investments and the supply of raw materials. While it is not possible to demonstrate it to a mathematical nicety on each count, there are fairly complete indications that the United States stands somewhat midway between these two types, say between that

of the United Kingdom and that of Argentina or Brazil, that it was formerly in the non-industrialized stage, and that it has now slightly passed the half-way mark. It is this trend in the national economy of the country, standing out most noticeably as an evolution in industrial structure, which, broadly viewed, indicates a fundamental orientation in its relations with other countries. This change embraces a decline in the proportion of exports of raw products and of imports of finished articles, and an increase in the proportion of exports of manufactures and of imports of raw materials. It involves a resulting tendency in the regional direction of imports and exports, with a growing purchase of raw materials from and sale of finished products to non-industrialized countries, the greatest proportion of the total trade continues to be carried on with Europe, but as American national economy becomes more like those of that region its foreign trade becomes somewhat more like theirs and tends to face more toward the "outlying" parts of the world, so that a "trade future" in Latin America and the Far East is more than a superficial slogan. It accounts primarily for the conversion to a creditor position, even though that conversion was precipitated and heightened by the exigencies of a world disturbance. It even suggests the possibility of an ultimately successful merchant marine, if the matter be viewed in sufficiently large perspective and if special conditions do not continue to impede such a development. Reverting to trade and back to industry, it explains the increasingly fundamental importance of foreign supplies of essential materials, the problem of foreign controls of some of these materials otherwise would not be so acute or would not exist. It presages a further foreign extension of industrial enterprise. Indeed, it provides a logical basis for increasing economic imperialism, though by the time it might have any spectae-

ular effects in this direction the process of such imperialism may conceivably have been diverted into other channels, as by international control of the less developed areas or by a revolutionizing of all industry through the applied sciences of synthetic production — this becomes a matter of speculation. In any event, the industrial structure of countries is most fundamental in explaining their foreign economic activities and relations, and consequently policies, and it stands as the foundation of the national economies which by their differentiation and interrelation comprise world economy.

RAMIFICATIONS OF THE STRUCTURE AND INTERNATIONAL PROBLEMS INVOLVED

However, the practical extent of the interrelation of national economies is more fully shown, not merely in industrial interdependence, but in the degree to which industrial enterprise extends beyond one country into others, often joining with that of other countries to form international enterprise. Unlike international trade, this process is not tallied up at national borders and made a matter of comprehensive public record capable of measurement, but enough cases are apparent to evidence a world-wide fabric. Consideration of these phenomena becomes a politico-economic question, and national policies, as shaped by these forces and for such purposes, must be taken into account. The status and form of domestic enterprise as organized wholly or partly for foreign activity, particularly among the industrial powers, usually finds little impediment in domestic policies. Its treatment with regard to incorporation, taxation, combination, and practices is seldom if ever discriminatory because it is for foreign purposes, although it may be hampered incidentally by policies adopted for domestic purposes, as in the case

of the American anti-trust laws. The movement toward combination of industrial enterprise into large and powerful units has characterized the modern period in the leading countries, and has been an important factor in the foreign extension of such enterprise. The laws of the United States have probably been the most severe in this regard, but even here there is some tendency toward their moderation as applying to foreign activities, if not for production, at least for exportation, as in the case of the Webb Act and even for production in the case of amelioration of taxation, regardless of this, American, as well as British, German, French, and other industrial enterprise has played a prominent part in the growth of an international industrial structure. In some leading countries there have been tendencies, in national policy, not to impede but to encourage, such foreign extensions.

Viewing the matter from without rather than from within, there is found to be, conversely, much ingress of foreign industrial enterprise, and this with some but surprisingly little discrimination against it because it is foreign. Important restrictions on foreign exploitation of resources exist in some countries, but in the leading countries incorporation or establishment of branches, taxation, combination and "trade practice" are generally on the basis of national treatment. This applies also to the question of "industrial property rights," although here a primary difference in national systems, as between the United States, with its absence of a compulsory working clause for patents and with its principle of priority of use rather than of registration for trademarks, and other leading countries, results in a certain practical inequality in spite of the national treatment largely arranged by bilateral and multilateral treaties. The problem of multiple taxation has recently caused some concern, not

so much because of non-national treatment as because of duplication of tax jurisdiction, but as a result of modification of laws in some of the principal countries and of international conferences, there is promise of solution of the problem, probably chiefly along the lines of exemption in the country of headquarters (residence) (except for shipping and possibly purely financial processes such as loans), although an incidence shifting process indicates a certain logic in exemption in country of operations (source). Yet, however serious these special difficulties may be, they are exceptions to a fairly general rule of freedom of extension of enterprise from one country to another.

Thus, with several important exceptions, this extension is not appreciably impeded by the laws and public policies of most countries, and in some instances is especially encouraged, as by tax exemption, by the policies of those countries from which the extension takes place. Moreover, it may be peculiarly facilitated, not so much by general statutory commitments, but by special and varying systems and practices involving leases and concessions granted in an administrative way. These special leases and concessions, and particularly the latter, are available either under general legislative provisions or more especially under special contractual arrangements, are frequently coupled with loans as the *quid pro quo*, and are found in many countries of somewhat different types, wherever there is special opportunity and need for foreign enterprise. But they are most significant in the so-called economically "backward areas," in those countries which are comparatively undeveloped in an economic way — in the Near East, Africa, Latin America, and the Far East. They have been most utilized for the development of mines and of railways and other means of communication such as cable and wireless plants, but have ex-

tended to lumbering, to factories, and even to agricultural plantations. They have been associated at times with spheres of influence and spheres of interest, and have been used as wedges for the advancement of economic imperialism, to some extent leading to disregard of native communities and to conflict between rival powers. But they are by no means sinister per se, and have often led to an interesting degree of cooperation, not only between the power and the native country, but also between the interests of the powers themselves, as in the case of the joint participation of interests of various nationalities in common enterprises. The system doubtless reached its height in Africa, where the absence of well-organized states permitted it to result in partitioning, but in other cases of old established states it has taken a more complex form, as in the case of the former Turkish capitulations.

The case of China is probably the most complex one. There, in spite of the existence of a long established sovereign state, there grew up in the last century and the early part of the present century, an intricate system of special foreign economic rights and interests, aside of course from certain outright cessions as of Hongkong, Taiwan (Formosa), and Chosen (Korea). It involved leased territories, area concessions (special foreign residential areas), foreign post-offices, and, extraterritoriality. It was colored or limited by such political arrangements as the Anglo-Japanese Alliance and the Four-Power Treaty of 1921 which superseded the latter. It included such general arrangements between the powers and China as commercial treaties giving access to foreign enterprise, particularly in the open ports, and with generalization through most-favored-nation clauses, and as bilateral arrangements between powers covering specific technical matters such as industrial property rights. It

removed Chinese tariff autonomy, and a particular arrangement placed tariff administration under joint foreign administration though not theoretically beyond native sovereign jurisdiction. In addition to these general arrangements affecting foreign interests more or less equally, it embraced innumerable special arrangements with given foreign interests or governments, covering concessions for mines, railways, waterways, and other communications, and many other types of economic enterprise. These concessions were frequently made in return for loans, so that a network of both foreign concessions and foreign debts grew up. The process led at one time to a system of spheres of interest, most, if not all, of these later nominally lapsed or were repudiated, although certain phases of the "twenty-one demands" of Japan and the continued position of Japanese interests and rights in South Manchuria amount to the same thing. The desire of the United States to bring about the concurrence of all the powers in the American policy of the Open-Door and equality of opportunity brought these and other Far Eastern questions into consideration at the Washington Conference of 1921-22, there a number of resolutions and agreements were adopted for the promotion of that policy, and also looking toward general moderation of foreign control in China, as in ultimate withdrawal of extraterritoriality and revision of customs, though subsequent developments in both international negotiations and local politics indicate the problematical nature of the future position of the powers in that country. From the present viewpoint the interesting phases of such cases are the system of devices which were developed for special access for foreign enterprise in that country, the degree of community of interest and action developed among the powers and between the powers and local interests, rather than the conflicts involved, and the basic differentiation of

economies which produced such community of interest. The growth of economic nationalism in the non-industrialized countries may check the process of maintenance and increase of special foreign economic interests there, but unless and until this leads to general native economic development and particularly to industrialization such countries are likely in the long run to accept, perhaps under more equitable, more uniform, and more favorable political arrangements, the participation of foreign economic enterprise; economic needs do much to shape political devices

Turning again from the special problems of the economically outlying parts of the world to the field of the leading industrialized countries, it is observed, not only that in matters of status there is a general facility for the extension of economic enterprise from one country to another, but that there is a large volume of such extension, and that, most interesting of all, there is a remarkable degree of international affiliation of such enterprise, in other words, that viewed in the light of organization and combination there are many concerns which may be roughly termed "world trusts." These combines have taken the many different forms and utilize the various devices familiar in the domestic field, including agreements, mutual or subsidiary stock ownership, holding companies, interlocking directorates, banking connection control, and patent control, although they have amounted to outright mergers and amalgamations less often than in the American domestic field. Many if not most of them have their origin in Europe, and therefore tend to take the cartel or syndicate form for control of production or sales or prices. Most of them tend toward monopoly, but few if any of them amount to or even approach absolutely complete monopoly of world-wide scope. There are buyer combines, and combines of service industries as in the case of radio but most

of them exist among the material industries and are for the purpose of controlling in one way or another either production or marketing or both. The World War and its immediate results, such as economic nationalism, formation of new boundary lines, currency depreciation, and general industrial stagnation, destroyed some of the former organizations but also helped ultimately to produce others, and since the war there has been a steady regrowth of such combines. More recently this tendency has been accelerated, and has resulted in the emergence of many international affiliations of enterprise, particularly in the metallurgical and chemical industries. The Steel Entente is perhaps the most significant example of the tendency and of its indirect bearing on such political events as those of Locarno and Thoiry. In some phases the new movement is somewhat distinctive, involving a trend toward vertical as well as horizontal integration and toward constructive benefits, as well as mere control, as in the exchange of industrial processes. That this growth of international affiliation of enterprise centers as much as it does in Europe might be interpreted merely as indicating a trend toward closer economic relations among the nations of that region, toward a "United States of Europe," but it is sufficiently widespread in its total fabric, involving Great Britain and even the United States, and in some respects other parts of the world, to amount to a broadly international phenomenon. Nor is the movement necessarily a dangerous one. World trusts, like domestic ones, may involve possibilities of economic evil, but stabilization of essential industries and their international markets and the prevention of internationally destructive competition is, within proper limits, wholesome. In any event the total result is an important part of the framework of a world industrial structure.

However, status and organization are not the only major

phases of this structure. It is obvious that natural resources basically condition the amount and character of the industrial development of a country and its economic relations with other countries. Consequently, although it has been asserted with some degree of truth that governments do not possess economic intelligence, the world powers at least in time of emergency take stock of their respective resource positions. But national economic self-sufficiency exists nowhere, not even in the United States, where in fact industrialization tends steadily to reduce in important particulars whatever degree of that sufficiency has existed. Indeed, as modern industrialization goes on apace, an increasing diversity appears in the raw materials used, and the leading industrialized countries, while less dependent for finished products, become more and more dependent upon other countries for supplies of raw materials (for food and for manufacture) of which they possess none, as in the case of the United States and rubber, or not enough, as in the case of the United Kingdom and wheat and meat and wool—to mention only a few of hundreds of instances. An inventory for the United States reveals a score or more of such cases, and other leading countries are even less favored. Because there are international wars or even international monopolies, a nation may be justified in formulating policies looking toward as much economic independence as possible, but as with individuals in a community it is impossible for them to attain isolation, without economic disruption and retrogression.

The problem, therefore, of raw materials is one of major importance in international industrial relations, and its acuteness is increased by the fact that there are certain public controls affecting it. Governments, by means of export duties, preferential or otherwise, trade embargoes, regulation,

and assistance such as financial aid and compulsory syndication, and actual participation, in a number of instances control supplies and tend to cause a manipulation of industrial essentials in the world market. This is particularly effective in instances of approach toward world monopoly, and is found in the cases of rubber, tin, jute, nitrates, and potash, and in a considerable number of other instances. Such cases have led to some international friction, and doubtless call for some adjustment of the problem. They are not unnatural (psychologically) where the control is instituted, as it usually is in the beginning, to prevent failure or loss to an industry in a period of price collapse, and, as in the domestic problem of restraint of trade, it is not always easy to draw the line between justifiable attempt at prevention of price disaster and unfair manipulation for undue profit. In the latter event they not only suggest the need of adjustment, but also reveal the peculiar dangers of too much governmental entrance into business, national or international, with a thwarting of the natural readjustment which economic forces bring about if allowed to operate. Although they constitute one of several types, these cases, by their acute character, sharply disclose the existing degree of international economic interdependence and show that the ramifications of the industrial order are world-wide.

One particular resource problem is of more or less spectacular character, namely that of petroleum. This case is conditioned by the strategically important uses of petroleum products, by the limitation and uneven distribution of the world's oil reserves, and by the fluidity and rapidity of the exploitation, production, transportation, and consumption of the commodity, these factors account for the rise of the problem in recent decades and also suggest that it may possibly decline or disappear in the not far distant future.

Meanwhile the petroleum question has colored the relations of many of the leading industrial powers with each other and with outlying countries; it has run like an iridescent stream through the channels of foreign affairs of nearly every region of the world. It involves governmental control and participation, private foreign exploitation of first magnitude, and closed-door policies in many regions, and discloses to a peculiar degree the extent not only of economic dependence of leading nations but also of the influencing by such matters of national law and public policy, diplomacy, treaties, and directly or indirectly almost every imaginable phase of international relations, including those between the United States and Mexico, Great Britain and Turkey, France and Great Britain, Great Britain and the United States, and many others. It demonstrates, of course, that to some extent there is such a thing as rivalry between nations concerning essential resources. But it is a spectacular, and probably atypical rather than typical, case, so far as conflict is concerned, and in the main is, like others, a demonstration of international economic dependence as well as of international extension and even affiliation of enterprise.

Although they are never so much in the limelight, the cases of purely private foreign exploitation of raw materials are doubtless more typical of the existing order. These cases are extremely numerous; they extend to some branches of agriculture, to forestry, and to almost every known mineral industry and involve particularly an extension of the enterprise of the leading industrialized countries into the economically less developed, and many of the more highly developed, countries in which such materials are found. The entire process is sometimes denounced as a device of dangerous imperialism, but it is more sanely viewed partly as a

means of the economic development of the world as a whole, although it is by no means confined to the so-called backward countries. But it is likely to be accelerated rather than to decline, as the raw material resources of the industrialized countries dwindle to even smaller proportions, unless there should eventuate either some complete displacement of the mine, farm, and forest by the laboratory, or some widespread diffusion of industrialization, which does not seem probable in the near future. More than anything else, it discloses the international character of the bases of industry, the territorial economic differentiation that accounts for world economy, and the frequent obliteration of political boundary lines and the international scope of single enterprises in the world economic order

GOVERNMENT POLICIES

Finally there is the general question of policies involved in the world economic system, for public, governmental affairs are ultimately the product of private forces and processes. The national policies are comprehended in the statement of the problems, but the question whether actually international, that is, joint, policies are necessary or feasible naturally suggests itself. There is undoubtedly a limited tendency for such joint policies to evolve, but they are, after all, largely the sum total of the interrelation of the national ones. The details of the latter are, in turn, extremely numerous and highly diverse. They embrace at the outset all of the various laws and public arrangements which exist primarily for domestic purposes but which have foreign effects, including such things as American anti-trust and unfair trade practice laws, subsidies and aids granted to enterprise in various countries, Russian or Mexican "nationalization" or certain

or all industries or resources, and innumerable other forms of restriction or assistance. With certain noteworthy exceptions, like that of Sovietism, they are generally less restrictive than might be expected in a world order which is politically characterized as nationalistic and, in fact, politically posited upon a nationalistic basis. Moreover, they are not infrequently shaped, in greater or less degree, by the necessities or desirabilities of international economic intercourse. In the matter of status of enterprise the national policies generally place surprisingly little impediment in the way of inter-extension (although the great mass of nationalistic restrictions on trade and shipping are well-known) and in not rare cases encourage it. Even where special problems exist, such as those of industrial property rights and double taxation, there is much less discrimination against foreign enterprise as such than might be expected, and in the former case many devices for insuring national treatment, if not universally equal treatment, have been developed, while in the latter case there are now national and international efforts toward the removal of existing inequities. In the matter of organization and practices the problem is less one of undesirable national restrictions than of possible need of international regulation of world combines that operate, in a sense, in a political no-man's-land; an international regulatory commission has been suggested, but seems scarcely feasible under present conditions. In these and other similar problems in international economic relations, solution is indicated rather along natural economic lines, as by economic self-help, and along lines of further agreements, bilateral and multilateral, more fully covering both specific and general reciprocal, though not preferential, treatment in the various departments of economic activity, amicable adjustment of

specific problems to mutual advantage, rather than joint régulation, commends itself. Further international facilitation of international enterprise appears to be the present need, and international restriction, of the negative type, may become more feasible if necessary at a later stage, but cooperation would be preferable to compulsion. In the field of international raw material supply there are now probably more national restrictions than in any other of the fields covered in the basic industrial structure. Here suggestions vary from universal removal of such national restrictions to international pooling of supplies or resources, but the more extreme proposals are chimerical and what difficulties exist are more likely to be removed step by step, partly through negotiation and mainly through self-help, much is to be said, however, for international arrangements for lifting discriminations, affording equality of opportunity, and preventing unfair artificial manipulation of essential supply markets — for governmental interference in business is open to the same objections in economic principle internationally as nationally.

Viewing summarily those policies of nations which more particularly or primarily affect foreign and international enterprise, they are seen to take the form of regulation, or assistance, or governmental participation, and to be affected through legislation, administrative action, contractual arrangement (as in concessions), and international negotiation and agreement (through diplomacy, and treaties and other agreements). The treatment accorded by a nation to foreign and international enterprise, like that accorded to foreign goods, may vary all the way from complete access or even special encouragement of entrance to complete exclusion, and may involve discriminatory exclusion (that is, discrimination between second and third nationals), or reciprocal treatment, or national treatment. When a problem arises in a

given case a nation may pursue one or more of three general courses for the adjustment of the difficulty with the other nation or nations. It may attempt its own solution of the problem, as in the case of foreign raw material control by developing its own sources of supply or by forming off-setting buyer combines or by reduction of consumption; this might be termed the economic solution, and while it is often difficult and at times nearly impossible, it is the most natural method, and one which, if feasible, is most likely to be effective in causing an economic reaction which will ultimately bring about a natural economic readjustment of the difficulty — it is in essence the familiar repercussion of the forces of demand upon those of supply. Again, it may resort to politico-economic retaliation, in kind or otherwise, or directly or indirectly, as by withholding its own important raw materials, or debarring foreign enterprise or restricting foreign exploitation of its resources, or by withholding loans to foreign industries or countries. Within certain limits or under certain circumstances this procedure is not illogical, as in the American withholding of loans to the German potash syndicate which had been exacting high prices from American potash consumers, but in the extreme forms the method involves dangers of increase of international economic conflict. Finally, a nation may negotiate with another nation, or other nations, in problems of foreign industrial relations. Such negotiations may take the form of simple protest or request for amelioration of the difficulty in a given case, or they may conceivably involve bargaining of various kinds, a positive process analagous to the negative process of retaliation. Generally speaking, special bargaining in such matters is illogical and likely to lead to confusion and further inequalities in the economic relations of nations. Negotiation, however, may look toward general arrangements, bilateral or

multilateral, involving national or most-favored-nation treatment, presumably reciprocal but not necessarily preferentially reciprocal, for equitable dealings in international industrial relations. Aside from purely economic measures, in the field of politico-economic arrangements concerning such relations the growth of a uniform treaty structure among the nations is doubtless most desirable. This can be erected along the same general lines as the ordinary commercial treaty structure already familiar, with past experience in the construction of such treaties as an aid in determining the most satisfactory forms. Indeed, the question may be particularly raised as to why there should not be developed treaty relations covering all industrial problems, and in fact all economic problems, arising among the nations. In the past emphasis has been placed upon trade, and commercial treaties have dealt exclusively or largely with matters of imports and exports and their tariff treatment, together, to some extent, with the related matters of shipping. But as the modern emphasis, in practice, tends noticeably to shift back to the industrial basis itself, and also to include other matters such as finance, it would seem most logical to develop commercial treaties to the point of including not only trade and shipping, but more commonly and comprehensively also industry, as well as finance. With the present trend in actual conditions, it is not unlikely that this may come about. The nations could build up, one with another, sets of treaties providing mutual and definite types of treatment of nationals in matters, not simply of import duties and shipping dues, but also status and technical rights of foreign enterprise, as in the matters of establishment of branches and taxation, of exploitation of resources, of supplies of raw materials, as well as of banking and other financial operations. If bilateral, these could include most-

favored-nation clauses of a type to produce uniform generalization of treatment. There are already some approaches to this sort of thing, but the tendency in dealing with matters other than trade has been rather to conclude specialized arrangements for such matters, as in the case of patents and trade-marks. Some specialization may be necessary, but much is to be said for covering, as far as possible, all of these related problems in comprehensive instruments. In a word, there would be much advantage in more completely developing the present system of commercial treaties into one of complete economic treaties.

This in turn suggests the matter of joint international arrangements. Instead of, or in addition to, the bilateral agreements, multilateral conventions may be adopted, as has already been done in the case of patents and trade-marks. Finally, joint conferences offer opportunity for exchange of opinion and more accurate knowledge of the full implications of such technical problems, and may lead either to multilateral conventions or to individual action by leading nations along more or less uniform lines. A number of such conferences on minor, and some major, technical questions have been held in recent decades. They may be informal, as in the case of investigations by technical committees, and unofficial, as in the case of those of the International Chamber of Commerce. The work of the League of Nations along these lines, as in studies of the problem of double taxation, has been one of its most effective endeavors, doubtless because there is opportunity to separate, in considerable measure, controversial international political questions from technical economic questions, and to leave the various nations, not in the posture of being in some way committed in advance to a course which may be viewed in some quarters as a partial surrender of sovereign rights, but rather in the

position of being free to join, at their own discretion, in some international arrangement for the removal of economic difficulties to the possible mutual advantage of all concerned. If a central world political affiliation is in many ways not practicable under present conditions, on the other hand there is nothing to prevent joint study and discussion of the problems of economic relations leading suavisely rather than peremptorily to individual actions or multilateral arrangements which will clarify and make more uniformly equitable such relations.¹ No such procedure can be expected to result in some sweeping scheme for the sudden birth of an international economic millennium, nor can solution of the problems be universally standardized; much of the progress must be step by step, and must rest upon a recognition of the economic differentiation which is fundamental in the existing order. But the gradual growth of mutually advantageous economic cooperation may be promoted by politico-economic endeavors

NON-GOVERNMENTAL PROCESSES AND THE FUTURE OF WORLD ECONOMY

In the last analysis, however, political devices cannot permanently remake an existing order. From the present viewpoint, governmental and inter-governmental policies are less important than natural economic forces and phenomena. There is, perhaps, no essential reason why there should not be international economic rivalry and competition, just as there is economic rivalry and competition between individuals and companies and local communities within a nation

¹ Under the auspices of the International Chamber of Commerce and of the League of Nations a number of specific economic problems have been dealt with by experts with considerable success in practical results, and under the auspices of the League a general World Economic Conference was held at Geneva in 1927, as noted in preceding chapters

The economic order is in the first instance a competitive one; in whatever scope, local or world-wide, it be viewed. Nor is it unnatural that there should be economic nationalism, wherever it rests upon economic solidarity; the national state has a real *raison d'être* where it coincides with a natural economic structure, and where it does not it tends to change form, by breaking down or by reintegrating along other lines. Such economic nationalism is somewhat analogous to economic individualism, which is firmly established in most countries in the present era and which, under properly minimized regulation, does not prevent and largely conduces to a balanced and cooperative and compensatory economic scheme of things. On the other hand, the most interesting phenomenon is not the existence of various public measures, which are a means to an end and a product of existing conditions, but the steady development of private processes. When these are considered, not only the increasing volume and complexity and scope of international trade, shipping, and finance, which is fairly familiar, but also, and more particularly, the less generally realized growth of an industrial structure the ramifications of which are world-wide, reveals a *world economy*. But this world economy is in turn composed of local economies, with diversified and differentiated, yet also with competitive conditions, and its scope and solidarity of functioning obviously are not as yet complete, as is also true of the component economies themselves, — as an organism, characterized as a unit by reason of cellular differentiation and interdependence, may lack perfect morphological coordination. When its evolution approaches nearer to completion certain problems in the relation of its parts may be more easily solved and may conduce to other types of accord. For economic activity is not man's and society's only or highest endeavor, but it is the first

and most substantial one, and the natural evolution of a world economic order gradually creates a more solid basis for, and along with geographic and ethnical and moral factors contributes toward the emergence of, a world polity, with possibilities of continual increases in efficiency and prosperity, as well as in world amity, and of the international harmonizing of the intangibles as of the tangibles of civilization.

APPENDIX

The following are additional notes and references pertaining to the subjects discussed in the foregoing chapters

CHAPTER II

THE SOCIAL FACTOR INTERNATIONAL ECONOMIC ASPECTS OF THE PROBLEMS OF RACE AND POPULATION

Racial Economic Efficiency

For comparative data on production, etc. in the various countries
vide

- 1 U S Department of Commerce, *Commerce Yearbook*, beginning with 1926 edition (issued in 1927) this is in two volumes, Vol. II being an expansion of the part on "Foreign Countries." This volume contains sections giving economic data of numerous kinds on the various countries, and in Part IV (1926 edition, pp 597-639), on "Comparative World Statistics," contains brief comparative statistics (by countries) of area, population, production of a limited number of leading raw products and international trade in such products, and also on transportation, communication, money and foreign exchange, and prices
- 2 League of Nations, Economic and Financial Section, *International Statistical Yearbook*, (e g issue for 1926, Geneva 1927) Contains comparative statistics, for the various countries of the world, of area, population and occupations of population, production of major commodities, imports and exports, shipping, public finance and currency, and prices

Economic Aspects of Migration

Migration has been the subject of study and discussion by (or under the auspices of) the League of Nations. An International Conference on Emigration and Immigration was held at Rome in 1924, and there